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Nova Scotia

Report of the

AUDITOR GENERAL

March 31, 1990

Nova Scotia

Honourable R.S. Russell, C.D.
Speaker
House of Assembly

I have the honour to submit herewith for the year ended March 31, 1990, my Annual Report to the House of Assembly, in accordance with Section 9 of the Auditor General Act.

Respectfully submitted

O.P. Cormier, F.C.A.
Auditor General

O. P. Cormier

Halifax, Nova Scotia
March 31, 1991

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INTRODUCTION

Introduction

As this, my seventh Annual Report, is tabled in the House of Assembly, it will be known that it is my last, as I shall be retiring as Auditor General in 1991. During this tenure of office, it has been my privilege to have been given a responsibility to the House of Assembly, and ultimately the taxpayers of Nova Scotia, that is one of very real significance. In my discharge of this responsibility, I trust that I have generally fulfilled the expectations of those who depend on this Office to be an integral part of the democratic government process.

There have been some dramatic developments over the past decade or so in the objectives and scope of audit work assigned to Legislative Auditors, not only in Nova Scotia but throughout the country. This is particularly evident in the increasing amount of broader scope audit activities that are concerned with the management and utilization of government controlled resources. In Nova Scotia, our audits of crown agencies, recipients of government grants and assistance, and of functions on a government-wide basis, have resulted in an exposure to many conditions and situations which, in my view, warrant closer attention by Members of the House of Assembly. Concurrent with these audit initiatives of ours, there have been in-depth reviews in several key areas of government involvement, primarily health and education, which have included Royal Commissions and other studies.

Accordingly, I have included in this year's Report a compendium of relevant observations which emanate not only from our audit reviews, but from other sources as well. These will be found in the article on The Accountability Process, page 30, and it is my hope that these observations will be of benefit to those both within and outside of government, in providing a perspective with which to address certain of the pressing economic problems facing Nova Scotia.

The mode of reporting for my Annual Report is one which might be termed "reporting by exception". We must comply with the reporting requirements of Section 9 of the Auditor General Act, as well as those that flow from Sections 8, 15 and 17. Accordingly, the majority of audit findings and comments point to shortcomings and weaknesses and suggest corrective action.

However, as I have indicated in previous Annual Reports, *"The majority of our departmental audit reports contain positive findings and conclusions resulting from our audit assignments."* To provide a more complete perspective on our audit activities during the year, listings of all audits performed are included in this Report as Appendices II and III. By comparing the extent of commentaries found in the sections relating to crown agency audits, special departmental reviews, and other observations, with the 67 audits listed in these Appendices, the reader can conclude that the majority of our audits do not result in reportable findings and conclusions.

Previous Reports have acknowledged, where possible, auditees' responses to our audit conclusions and recommendations. This year, we have again afforded auditees the opportunity to react to our recommendations and to indicate corrective action.

It is my contention that the role of an Auditor General is not only to report to the House of Assembly in accordance with the legislative responsibilities under the Act, but also to provide auditees with constructive evaluations and recommendations for improvement that are practical and can be acted upon. Accordingly, it is most satisfying when an unfavourable audit observation is recognized as requiring positive remedial action, and this action is promptly undertaken.

The functioning of our Office from an administrative standpoint is dependent upon the services provided by many other departments within government. I would like to single out those whose support, over my term as Auditor General, has been critical to the successful operation of our Office. In particular, I would like to acknowledge the efforts of the Civil Service Commission in their excellent work for us in recruitment of staff, and also for their assistance with various staffing matters, and the provision of certain training courses which our staff have attended. Management Board has been extremely cooperative and understanding in responding to our budget and other requests. The Department of Government Services has also been very supportive in our various facilities requirements, in particular our move of premises four years ago. The day-to-day functioning of much of our audit work is dependent upon the continuing cooperation and assistance of two groups, the Systems and Computer Services Division of the Department of Government Services and the Department of Finance.

To all of these a sincere acknowledgement for their support and understanding of the unique role that an Auditor General's Office fulfills in the functioning of government.

In closing this introduction, it is fitting that I extend what is undoubtedly the most deserving of all expressions of gratitude. It is to the staff of my Office, not only those currently with the Office, but also to those who worked here previously, a large proportion of whom are now elsewhere in government.

Although the Auditor General may be given credit for much of what has been accomplished, it must be recognized that it is the performance of a dedicated and competent staff which has enabled us to achieve what we have been able to over the past few years. No one knows this better than the management and staff of those entities we have audited, and I acknowledge very sincerely their kind expressions of appreciation for the performance of our staff and the very real benefits derived from many of our audit assignments. Not only do I wish to convey my gratitude to both the administrative and audit staff for the support they have afforded me as Auditor General in the fulfillment of their responsibilities, but also to convey what a pleasure and satisfaction it has been for me to have known and worked with such a fine group of people.

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SUMMARY

Summary

This summary presents an overview of the principal matters covered in the Report. At the start of most articles there is a brief summary. Accordingly, this section of the report does not provide extensive details, but rather identifies what is covered in the articles.

Audit Responsibilities

There are two articles in this section of the report. The first one "Role and Responsibilities of Auditor General" describes the objectives of this office; the participants in the audit process; the types of audits performed; and contains a commentary on the independence of the Office. A reading of this section should provide a fairly good understanding of the purposes and function of the Auditor General's Office.

The second article "Scope of Audit Examinations" refers to provisions of the Auditor General Act and indicates the audits actually performed during the current audit year.

Accountability and Audit

The first article in this section "The Accountability Process" discusses the need for greater accountability and the merits of an effectiveness reporting framework; as well as suggesting improvements in government policies, the role of boards and commissions, an enhanced role for Management Board, and better information systems.

A second article "Audit Function in Government" explains the role of the Office of the Auditor General with particular reference to departmental broad scope audits; and discusses the audit of the Public Accounts of the Province, performed by a private sector auditing firm.

Financial Topics

The "Financial Position and Operating Results" article includes analysis and commentary on four indicators commonly used in an evaluation of financial position and operating results; namely net debt, operating deficit, major revenues and expenditures, and a comparison of actual results to the Estimates.

"Additional Appropriations" provides a schedule of those over $50,000, and a commentary explaining the reasons for certain of the larger ones.

Crown Agencies and Corporations

In addition to a commentary on the results of our review of the auditors' reports for all crown agencies for which we are not the appointed auditors, this section of the Report includes the results of four audit assignments performed during the year.

- *Nova Scotia Board of Commissioners of Public Utilities* – A commentary on the changing responsibilities of the Board.

- *Nova Scotia Rehabilitation Centre Corporation* – A review of selected areas of management of the Corporation, with an emphasis on financial management and related aspects of administration.

- *Upper Clements Family Theme Park Limited* – A review of the background leading to the building of the Family Theme Park, and a commentary on certain relevant administrative and management practices.

- *Victoria General Hospital* – A follow-up to the review of financial management practices and associated administrative practices conducted in 1989, at both the Hospital and the Victoria General Hospital Foundation.

Transfer Payment Reviews

This year's Report includes articles on the results of 11 reviews completed during the year at school boards and universities, under the provisions of Section 15 of the Auditor General Act.

- *School Boards* – The results of our reviews of the financial management process and certain related functions at four district school boards; and a commentary on the school construction decision process.

- *Universities* – The results of our reviews of the financial management process and certain related management functions at seven universities.

Special Departmental Reviews

This section of the Annual Report describes thirteen audit assignments of varying depth and nature. Included in the Introduction to the section is a commentary on a Survey on Department Activities and Programs to be used as the basis for future audit work in the departments of Government.

- *Administration Lending Function* – An extensive review of the administration of the lending function in four entities, namely Nova Scotia Business Capital Corporation, Industrial Expansion Fund, Industrial Loan Fund, and Small Business Development Corporation was completed during the year. Our conclusions from this examination support the concerns expressed in my 1989 Annual Report as a result of the fragmented and changing responsibilities for administration of the lending function and the need for consolidation of these functions.

- *Computer Related Audits* – In a series of three articles, there is a description of:
  - follow-up to our 1989 Annual Report comments relating to microcomputer resources, and systems maintenance controls;
  - the results of the first phase of an in-depth analysis of the project management function associated with the acquisition and development of computer resources within government; and
  - a review of the Human Resource Management System, which is currently under implementation within government.
- *Expenditures under the Elections Act* – The results of our review of expenditures under the Elections Act for the September 1988 Provincial Election.
- *Expenses of Members, Ministers, Deputy Ministers, Ministerial Assistants, and Judges of the Provincial Court* – The results of our cyclical review of expenditures for the aforementioned groups.
- *Government-Wide Departmental Audit* – Results of the audit of revenues and expenditures of government in which the audits of most departments are consolidated into one single assignment. This article includes specific comments on those situations where weaknesses in control and non-compliance with legislative and departmental requirements were found.
- *Lands and Forests* – A review of the management and control systems for land acquisitions and disposals, based upon an examination of a sample of transactions.
- *Municipal Affairs* – Results of an in-depth review of the property assessment process for the Province as administered by this Department, including observations and recommendations for improved administration of this function.
- *Payments to Consultants* – We conducted an examination of over 40 consulting arrangements in 13 departments of government. We have identified weaknesses in certain of these relating to lack of tendering, lack of formal contracts, monitoring of performance, evaluation of final results, and the payment process.
- *Royal Commissions' Expenditures* – We reviewed the administration of the expenditure practices for the two recently completed Royal Commissions, namely the Donald Marshall Jr. Prosecution, and Health Care. We found a need for better guidelines, and for additional support for financial expenditure administration for Commissions of this nature.
- *Solicitor General* – Results of an audit in which we reviewed the R.C.M.P. policing contract, certain administrative practices at the Halifax County Correctional Centre, budget preparation for the Correctional Centres, control of capital assets, and certain recovery agreements the Department has with the Federal Government.

- *Transportation and Communications* – A review of the management and control systems for land acquisitions and disposals, based upon an examination of a sample of transactions.

Other Audit Observations

Three articles in this section of the Report are of significance.

- *Accounting Function Performance* – Again this year extensive delays were experienced in the completion of five of our financial statement opinion audits, including two major ones. This contributed to serious problems in the finalization of the Public Accounts of the Province, as well as disruption to the audit scheduling for our Office. Accordingly, the Department of Finance and our Office have embarked upon a joint initiative to remedy this situation, in an effort to achieve a more responsible and timely response by the entities concerned to the performance of the accounting function.

- *Provincial Retirement Plans* – This year's article comments on the most recent actuarial review of the Public Service Superannuation Fund; and also reiterates concerns expressed last year with respect to the financial condition of the Teachers' Pension Fund.

- *Reservations of Opinion* – In accordance with the provisions of Section 8 (b) and (d) of the Auditor General Act, it was necessary to reserve opinion on six audits because of a lack of adequate accounting and financial controls.

Status Prior Years' Observations and Recommendations

This section tabulates the status of observations and recommendations from prior years' Annual Reports which are still outstanding or were dealt with during the current audit year.

Office of the Auditor General

This section includes information on staffing, financial results, various professional and training activities, and other related matters pertaining to the Office.

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AUDIT RESPONSIBILITIES

Role and Responsibilities of Auditor General

Introduction

This year's Report includes a description of the role and responsibilities of the Auditor General and the auditing environment within which the Office functions. This is to provide an understanding of what this Office does in fulfilling its mandated responsibilities. The description of the functions performed by internal auditors and external auditors in comparison to ours should help to explain their respective roles. An appreciation of certain proposed amendments to the Auditor General Act should be enhanced by this presentation. Finally, and perhaps most significantly, this description will strengthen an understanding of the accountability process in Government, a topic dealt with separately in a following section of this Report.

Our comments are organized under four captions.

Role of the Auditor General
Independence of the Auditor General
Participants in the Audit Process
The Auditor General Act

Role of the Auditor General

Objectives – The primary objective of the Auditor General is to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

To achieve this objective, the Auditor General examines the accounts of the Province and presents an Annual Report to the Legislature. This Report is then discussed with the Legislature's Public Accounts Committee.

A secondary objective of the Auditor General is to assist Deputy Ministers and agency heads in holding their administrators accountable to them, by reporting on the quality of the stewardship of public funds in the department or agency.

This objective is not stated in the Auditor General Act but it is a logical extension of our primary objective. It is achieved when we report to the Deputy Minister or agency head at the conclusion of an audit. These reports include assessments of the significant areas audited, as well as our recommendations for improvement.

Activities – The audits performed by this Office fall into three categories – attest, compliance, and broad scope – with the latter further sub-divided into crown agencies and corporations, special assignments, and transfer payment audits.

Attest Audits

Attest or financial statement audits are the ones with which the general public is most familiar. They involve the expression of an opinion on a set of financial statements as to whether the results of operations and the financial position of the entity have been fairly presented in accordance with its stated accounting policies, and whether such policies are consistent with those used in the previous year.

An important aspect of attest audit work is the study and evaluation of internal controls. Internal controls are the systems and procedures developed by management to safeguard assets, and to ensure the accuracy and reliability of accounting data. Section 8 of the Auditor General Act (reproduced in Appendix I) gives the Auditor General responsibility for ascertaining whether essential records are maintained and procedures are applied regarding revenues and expenditures, and the safeguarding of public property.

Although we assess the internal controls in government departments and agencies, the audit opinion on the Public Accounts is given by a firm of private sector auditors. The Auditor General does express an opinion on the financial statements of numerous crown agencies and funds (see Appendix III).

The manner of conducting and scheduling our audits of government departments was significantly revised in the 1989 audit year. Essentially the revised approach we have adopted involves the auditing of payroll and other expenditures on a government-wide basis in one single large audit assignment, rather than in a series of separate audits in individual departments. On the basis of sampling techniques, audit tests of the documentation and records in most departments will be performed each year. The results of this year's experience are described more fully in the article "Government-Wide Departmental Audit", page 152 of this Report.

Compliance Audits

Audits are conducted in government departments and crown agencies to assess whether transactions and other aspects of operations comply with legislative and other requirements. These include Provincial Acts, Regulations of Government, Management Board policies, and directives of the departments and agencies. Sections 8 and 17 of the Auditor General Act assign the Auditor General responsibility for conducting these compliance audits.

Our compliance auditing responsibility is fulfilled by the "Government-Wide Departmental Audit", described above under attest audits, supplemented by several in-depth individual departmental audits. These audits which are performed on a cyclical basis comprise a significant portion of our annual audit activities.

Broad Scope Audits

Broad scope audits focus on the actual management of a functional area, including programs and projects. More specifically, these audits are designed to determine whether:

- the program or activity under review is economically administered, with goods or services being obtained in the proper quantities at the proper times and at economical prices;
- the work is performed efficiently making the best use of available human and material resources;
- reasonable attempts are made to measure and report on program results; and
- appropriate and timely information is available to management for decision-making purposes.

It is important to note that this Office does not evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery. These functions should be performed by the management of the department or agency. This Office assesses the extent to which management has carried out these functions.

Such audits have been conducted regularly by this Office, and several are reported upon in this Report. The three types of broad scope audits we perform are:

Crown Agencies and Corporations – We review broad issues such as the management and organization of the entity, and the manner in which it is meeting its legislated or other objectives. These audits are performed in those agencies and corporations where this Office is not the appointed auditor, in accordance with Section 17 of the Auditor General Act. (Two audits of this type are described in the section commencing on page 62.)

Special Assignments – These include an in-depth review of an activity or program within a department, and government-wide reviews of an activity or function. (13 audits of this type are described in the section commencing on page 120.)

Transfer Payment – By virtue of amendments made in 1988 to the Auditor General Act, this Office has the mandate to perform examinations and audits of entities or organizations receiving financial assistance from government. During the year, we completed these examinations at seven universities, four school boards, and one hospital. (An article on page 88 describes these audit initiatives more fully.)

Reporting Process – The annual reporting responsibility of the Auditor General to the House of Assembly is set forth in Section 9 of the Auditor General Act, reproduced in Appendix I.

The Public Accounts are tabled in the House of Assembly in accordance with provisions of the Provincial Finance Act, no later than the tenth day of sitting. The Auditor General's Annual Report is tabled on a day following this, usually in the third or fourth week of the Session. Subsequent to its tabling the Report is discussed with the Public Accounts Committee, whose meetings are open to the general public.

To assist Deputy Ministers and agency heads in holding their administrations accountable to them, we issue reports at the completion of all departmental and agency audits.

At the conclusion of each audit, the reporting process normally involves:

- discussing the draft report with senior officials of the department or agency;
- revising the draft report, as a result of this discussion, or from review by senior management in our Office;
- issuing the final report to the department's Deputy Minister or, in the case of agencies, to the agency head and the Minister in charge of the agency; and
- further discussion of the report if requested by the department or agency.

The findings, observations, conclusions, and recommendations included in the various articles in this Annual Report relating to specific departmental, crown agency, and government-wide audits are all derived from reports issued throughout the year.

Independence of the Auditor General

To enhance the independence of the position of the Auditor General, I have again included certain suggested revisions to the Auditor General Act. These are presented in a section on the Act, beginning on page 23.

The Auditor General must be perceived to be independent from all sources of bias and interference. To ensure such independence the Legislature has enacted the Auditor General Act to set out the mandate of the Auditor General. He is appointed by the Governor in Council, and may be removed upon the passing of a resolution to do so by the Legislature, carried by a vote of two-thirds of the Members voting on it.

Administratively the Office of the Auditor General is separate from all government departments and crown agencies. However, the resource requirements of the Office are subject to approval by Management Board, Executive Council, and the Legislature.

Only if the Auditor General is truly independent of the Government will he be able to fulfill the role described above and report objectively to the Legislature. If the audit reports or the work underlying them are constrained in any way, the Legislature cannot be confident that it has been given the proper tools with which to hold the Government accountable.

Participants in the Audit Process

Internal auditors, private auditing firms (commonly referred to as public accounting firms), and the Auditor General participate in the audit process within government departments and crown agencies. A brief description of the role of each follows.

Internal Auditors

Internal auditors perform audits in their departments and agencies on behalf of management. Their responsibilities include auditing both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability. To avoid duplication of effort this Office relies wherever possible on department and agency internal auditors.

Internal auditors are employees of the department or agency, and support management by helping to ensure that control procedures are reliable. They generally report to their department head and the deputy minister or, in the case of a crown agency, to the agency head.

Private Auditing Firms

There are crown agencies and corporations whose annual financial statement audit is performed by a chartered accountant other than the Auditor General. Appendix IV schedules these.

Under Section 17 of the Auditor General Act, I am provided annually with these audited financial statements, and all reports to management prepared by their auditors. A summary of our review of these reports (usually termed management letters) is found in the article on page 62.

Also, the Act provides that my Office may conduct such additional examination and investigation of the records and operations of these agencies as I deem necessary. In 1985 we prepared a five-year plan providing for a minimum of one audit examination in each crown agency and corporation during that period. During 1990 four such examinations were completed. Two are reported on separately beginning on page 66, but the other two were not finalized in time for this year's Report.

Nova Scotia is the only province in Canada that engages a public accounting firm to attest to its financial statements. Although my Office does not have the responsibility for expressing a formal audit opinion on the Province's financial statements, we do review them. On the basis of this review we have stated in our Annual Reports since 1983 that the financial statements are an appropriate presentation of the Province's financial position and operating results.

Auditor General

Sections 8 and 9 of the Auditor General Act contain the basic auditing and reporting responsibilities of the Auditor General. These Sections are summarized on page 24, and are reproduced in Appendix I.

The fundamental distinction between the Auditor General and the two other types of auditors is that he is a servant of the House of Assembly. Not only are his rights, duties, and responsibilities contained in legislation, but he is required to report annually to the House and meet with a standing committee of it.

This process is part of the British parliamentary system, found in all Canadian provinces and at the federal level, as well as in most other democracies. Over a century old, it is an essential part of the accountability process for a democratic government.

The Auditor General Act

The Auditor General Act was proclaimed in 1973, and minor revisions were made in 1976. Significant amendments to the Act were made in 1988, and became effective June 1, 1988. These amendments covered three principal areas.

- The authorization to audit the accounts of those to whom government grants and other assistance have been provided.
- The responsibility to report all instances in which expenditures are not made with due regard for economy or efficiency.
- Other minor amendments to the Act, more of a housekeeping nature, to better reflect contemporary legislative requirements.

However, two areas in which I had proposed amendments were not included in the 1988 revisions to the Auditor General Act. One of these dealt with what I consider to be requisite legislative provision for a greater degree of independence relating to this Office. In particular, the appointment of both the Auditor General and the Deputy Auditor General should, in my view, have a degree of participation by some type of all-party representation. In addition, it would seem that there should be provision for a committee of the House, rather than the Government, to have exclusive jurisdiction in administrative, budgetary and related matters to ensure that the independence and proper functioning of the Office is not impaired.

The second revision I proposed refers to the responsibility for the audit opinion on the financial statements of the Province. Nova Scotia is the only province in Canada which engages a public accounting firm to attest to its financial statements. This responsibility should be assumed by our Office for a variety of reasons. Currently there is an unwarranted duplication of audit effort and unnecessary additional audit costs. Moreover, it is my contention that a more independent accounting to the Legislature would be provided by having the Office of the Auditor General perform this audit responsibility. A further discussion of this subject will be found in the article starting on page 38.

I will propose to the Legislation Committee of Government that consideration be given to amending the Auditor General Act, in the 1991 sitting of the House of Assembly, to reflect my proposals regarding appointment of the Auditor General and Deputy Auditor General and the audit of the Public Accounts of the Province.

Scope of Audit Examinations

The responsibilities for audit in Section 8 of the Auditor General Act state that the Auditor General is required to examine, in such manner and to the extent he considers necessary, accounts relating to both money received and money expended, and to ascertain whether in his opinion:

- all public money has been fully accounted for;
- money has been expended for the purpose for which it was appropriated by the Legislature;
- money has been expended without due regard to economy or efficiency;
- the accounts have been properly kept; and
- essential records and procedures are maintained to safeguard and control public property.

The reporting provisions of Section 9 state that there must be brought to the attention of the House every case where:

- any person has wilfully or negligently omitted to collect or receive money belonging to the Province;
- public money was not fully accounted for and paid into the Consolidated Fund;
- any appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;
- an expenditure was not authorized or properly vouched or certified;
- there has been a deficiency or loss through fraud, default or mistake of any person;
- a special warrant authorized the payment of money;
- money has not been expended with due regard to economy and efficiency; and
- any other case that the Auditor General considers should be brought to the notice of the House.

Sections 8 and 9 of the Auditor General Act are reproduced as Appendix I of this Report. In addition, Section 15 regarding special audits of recipients of financial assistance from Government, enacted effective June 1, 1988, is included in Appendix I.

The scope of the audit activity of my Office may be classified under six distinct headings, each of which is described below.

1) *Auditor General Act, Section 8 Requirement*

To meet the legislated requirements of Section 8, my Office conducts reviews of the accounting systems, controls, and transactions within the departments of government. These reviews involve tests of systems, accounting records, and other supporting evidence.

All systems in every department are not subject to annual audit. Although the audit work undertaken is selective, it encompasses sufficient activity in major departments to fulfill the mandate prescribed in Section 8.

To provide a perspective regarding the extent of the Office's auditing in the departments of government, a listing of 67 audits in 21 departments performed in the past year is in Appendix II of this Report.

The manner in which we perform our audits of department revenues and expenditures was modified significantly in 1989, as described more fully in the article commencing on page 152.

2) *Audits of Crown Agencies*

The Auditor General is the auditor of 30 crown corporations, boards, commissions, and funds. These appointments flow from the Acts of the entities, Order in Council appointments, or appointments made by the Boards of the entities. In each case, it is my responsibility to express an opinion on the annual financial statements of the entity.

A schedule of these audits may be found as Appendix III of this Report. Most of these financial statements are published in the Public Accounts of the Province.

3) *Audits by Other Chartered Accountants*

There are other crown agencies and corporations whose annual audit is performed by a chartered accountant other than the Auditor General. A schedule of these may be found as Appendix IV.

The Auditor General Act provides that my Office be furnished annually with both the audited financial statements and all reports prepared by the auditors of these agencies and corporations. My Office reviews these audited financial statements and the management letters or reports from the entities' auditors. The results of this review are included in an article on page 62.

Further provisions of Section 17 of the Act (see Appendix I) empower my Office to conduct such additional examination and investigation of the records and operations of crown agencies as we deem necessary. We attempt to do each crown agency at least once every five years.

During 1990, examinations were completed at Nova Scotia Rehabilitation Centre Corporation, Schooner Bluenose Foundation, Tidal Power Corporation, and Upper Clements Family Theme Park. Two of these are reported upon separately beginning on page 66.

4) *Other Audit Assignments*

In addition to examinations performed under the Section 17 mandate, my Office usually conducts one or more special audit reviews of departments, crown agencies, or corporations under Section 8 of the Auditor General Act. These assignments may be an in-depth review of a given segment or program of a department or agency, or the review of a function that is performed in several departments, referred to as a government-wide or horizontal study.

Twelve such assignments were performed in the current year, each of which is described in this Report.

Administration Lending Function
An Evaluation of the Function (page 123)
Computer Related Audits
Project Management Function (page 136)
Human Resource Management System (page 143)
Expenditures Under The Elections Act
1988 Provincial Election (page 147)
Expenses of Members of the House of Assembly and Executive Council, Deputy Ministers and Equivalents, Ministerial Assistants, and Judges of the Provincial Court (page 149)
Government-Wide Departmental Audit
Revenues, Expenditures, Systems and Controls (page 152)
Department of Lands and Forests
Land Services Branch (page 156)
Department of Municipal Affairs
The Property Assessment Process (page 160)
Payments to Consultants
A Government-Wide Review (page 167)
Royal Commissions' Expenditures
Donald Marshall Jr. Prosecution and Health Care (page 177)
Department of Solicitor General
Correctional Centres (page 184)
Department of Transportation and Communications
Land Acquisitions and Disposals (page 188)

In addition we conducted updates to previous audit assignments.

Computer Related Audits
Follow-up to 1989 Reviews (page 133)
Victoria General Hospital
Follow-up to 1989 review of Hospital and Foundation (page 80)

5) *Transfer Payment Audits*

To meet the legislated audit requirements under Section 15 of the Auditor General Act, as enacted effective June 1, 1988, my Office in 1989 commenced reviews in entities receiving financial assistance from govern-

ment. The audits completed this year are reported upon under two captions.

School Boards
Review of Four School Boards (page 89)
Universities
Review of Seven Universities (page 104)

6) *Federal Provincial Cost-Sharing Claims*

My Office has the responsibility to certify claims for various cost-sharing programs of the Province with the Government of Canada. For the fiscal year ended March 31, 1990, a total of 599 claims were audited, relating to 20 separate agreements involving 149 projects.

It is our responsibility to determine that the departments concerned have complied with the terms of the agreements, and that the amounts claimed are in accordance with the agreements.

To November 30, 1990 all claims submitted to various federal departments and agencies for the fiscal year ended March 31, 1990 have been paid. In my 1989 Annual Report it was noted that the Canadian Forestry Service requested the refund of $250,000 from the Department of Lands and Forests. During the current year the Department negotiated a resolution of this matter which required no refund payment. Our office assisted the Department in its negotiation of this matter.

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ACCOUNTABILITY AND AUDIT

The Accountability Process

Summary

This article discusses the need for greater accountability not only within government, but for those who receive government assistance in fields such as health care and education. An attempt is made to explain the key elements of good accountability which are the setting of expectations; the conditions relating to assistance provided; the reporting of results; and the corrective action taken when results do not meet expectations.

Also discussed is the concept of Effectiveness Reporting, with a description of the 12 attributes being used by some in this critical area of performance measurement. This concept is closely allied to accountability, and in many respects it could be said they complement one another.

Certain of the more significant observations, conclusions and recommendations from the article are as follows.

- There is an increasing awareness of the need for improved accountability by both management and governing bodies.
- The task of developing acceptable accountability frameworks will be a challenging one, requiring mutual acceptance by the government and managers, as to outcomes and expected results and also the mode of reporting.
- There is a need for soundly based government policies regarding level and type of service to be funded by taxpayer dollars.
- The responsibilities of members of Boards and Commissions will have to be increased in order to fulfill their mandate regarding accountability.
- Within government, Management Board should assume a more pervasive role respecting many aspects of government department operations.
- There is a clear need for improved information systems, particularly for the health care field, to support new accountability frameworks.
- There will be a critical need for cooperation and understanding among the various levels of management and governing bodies as revised accountability frameworks and more efficient and effective management practices are introduced; as well as a recognition that significant changes will be necessary to achieve better ways of managing scarce resources.

Introduction

Accountability is a term which has received increasing attention in recent years, it is being mentioned more and more frequently, particularly regarding government financed expenditures and operations. In each of my last five Annual Reports, there have been articles devoted to the topic as it relates to accountability to the House of Assembly.

Recent audit experiences of our Office, concerning both departments of government and others receiving government assistance, have combined to emphasize the need for a more in-depth discussion of accountability in this year's Annual Report. There are certain questions being raised for which an attempt should be made to provide a response.

- What is meant by accountability?
- What must be done to achieve or fulfill accountability requirements? Who is or should be accountable?
- To whom and for what should individuals or entities be accountable?

In the performance of certain of our audits, particularly those of a government-wide nature, we have experienced situations where we have been unsure as to who in government is responsible for receiving and considering our audit observations and recommendations. More importantly, there has been uncertainty as to who is assuming the responsibility for corrective action when such is deemed appropriate.

Transfer payments approximate almost 70% of annual provincial government expenditures. Because of the magnitude of these payments, we have been especially concerned with the need for adequate accountability regarding these expenditures. This has been a primary aspect of our reviews conducted over the last year or more in hospitals, school boards and universities.

The purpose of this article is an attempt to improve understanding of the accountability process by: noting some recent developments and statements regarding the topic; discussing the concept of effectiveness as it relates to accountability; and suggesting initiatives which should serve to enhance both acceptance and understanding of accountability. This is being done because I am not convinced that all involved in key administrative positions, whether they be senior management or members of boards, fully appreciate the basis or fundamentals of the process. Moreover, actions directed towards a better accountability process will involve significant changes in the way many of us have been functioning as either members of governing bodies or management.

Accountability

Accountability in its simpliest terms means the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties; one who allocates responsibility and one who accepts it, with the undertaking to report upon the manner in which it has been discharged. There is obviously a need for a performance and expectations framework within which to either report or receive a statement of accountability.

The Ontario government in its "Transfer Payment Accountability: A Manager's Guide", outlines the accountability process in four steps.

- Setting Expectations – Involves deciding on the objectives and the results that the recipient is to achieve with the transfer payment. Expected results will vary with the nature of the accountability relationship and the program itself. Results expected may be limited or they could relate to outputs (such as units of service provided); efficient, economical, and effective management of resources; and compliance with provincial policies and standards.

- Contracting – Involves arriving at an understanding between the ministry and the recipient on the conditions applicable to the transfer payment. Conditions may relate to funding, objectives, results, and other obligations to be met, and reporting of accountability information.

- Reporting – Information to be reported should be sufficient to assure the ministry that the conditions set out for the transfer payment have been met. Care should be taken to ensure that only essential data are requested at a level of detail that is reasonable, and that the ministry has the capability to monitor and follow-up on data submitted.

- Corrective Action – To be taken if objectives and results, expenditure limits or information requirements are not being met.

The task of establishing and maintaining acceptable accountability relationships, both on the part of the recipient of government assistance, and the governing bodies themselves is not easily accomplished. It requires considerable time and effort, as well as commitment and understanding, to establish an acceptable accountability reporting relationship. There has to be understanding and agreement with objectives and expected results, agreement on a satisfactory reporting mechanism on a timely basis, and consensus on the responsibilities for and type of corrective action when objectives and results are not necessarily achieved.

A consideration of the foregoing breadth and depth of accountability reporting clearly establishes the point that an audit opinion on an entity's financial statements does not provide complete accountability. Entity or program objectives, expected results or outcomes, evaluation of actual results and decisions regarding corrective action all go far beyond the traditional financial statement audit. Thus the preparation and presentation of audited financial statements alone will normally be insufficient to satisfy an accountability reporting requirement.

Recent Developments/Statements

Several items are worth mentioning, because they suggest that existing accountability processes are deficient and require improvement.

The Royal Commission on Health Care in its December 1989 Report stated that *"...managing the health care system necessitates a high degree of accountability from those to whom government delegates authority. Accountability and coordination will be strengthened by providing health care professionals with opportunities to participate in planning and management"*.

In its June 1990 report to the Department of Education, Doane Raymond recommended that the Minister of Education should establish an accountability framework which describes information and reporting requirements; and they suggest certain fundamentals for this new framework. They further note that accountability information must be related to prudent resource management or quality of education programs and must be capable of substantiation. They acknowledged that it would take time to develop appropriate accountability information, and this should be done on a joint basis with the school boards and the Department. They also suggest that *"to make best use of limited resources government must have systems and procedures which measure outcomes and the impact on these outcomes of alternative courses of action. As in other public services, measuring desirable outcomes is a challenging task. But this is not a reason to reject outcome measurement."*

A research project entitled "Universities and Government", sponsored by The Institute for Research on Public Policy and published in 1990, stated that *"much of the expectations gap – the gap between what external funders want and what they perceive universities to be doing – reflects the inability or unwillingness of universities to provide thorough and useful information on what they are actually doing. It is also very likely that the information presently collected internally can, suitably adjusted and wrapped, satisfy many of the external demands, but that some creative new information will also be necessary."* It also stated that *"the taxpayer deserves a better explanation than currently offered of what universities accomplish with the resources made available. ... Institutions which live off annual allocations cannot afford the luxury of insisting on being taken on faith at all times."*

Over the past several months, the Public Accounts Committee has been developing means to improve its role in the accountability process of government. The Committee's efforts include a more formal enunciation of the role and responsibilities of the Committee, an improved structure for conduct of meetings, greater use and liaison with the Office of the Auditor General, and a process for follow-up action with respect to Committee recommendations.

The foregoing excerpts and quotations are indicative of an increasing awareness on the part of interested parties of the need for a far more effective accountability process for government and for those entrusted with the expenditure of government assistance.

Effectiveness

Any discussion of accountability must consider how to arrive at a measure of effectiveness. Often heard from those in charge of an institution, operation or program is a statement that their's is one of excellence. Also heard, even from those attempting to assess their own performance is – How do we know whether we are doing a good job? There is a tendency to measure what is easy – not what is important, and a tendency to measure inputs not outputs.

Members of the Legislature and other governing bodies must be served with better information about effectiveness than they are now receiving.

The Canadian Comprehensive Auditing Foundation in its 1987 Study on Effectiveness Reporting, indicated that *"effectiveness is a complex concept, not susceptible to a simple definition having universal application."* The Study *"synthesized the concept into a framework comprising twelve attributes, each of which is useful for forming judgements about effectiveness. The attributes are intended to provide a basis for reporting information at a level that is meaningful to managers and governing bodies and that can be substantiated and audited."*

The following attributes warrant serious consideration as a framework, and have already been applied successfully at several levels of government by both management and governing bodies, although not in Nova Scotia to date.

1.	Management Direction	Does everyone understand the objectives of the organization and their own role?
2.	Relevance	Do activities continue to make sense in addressing the needs for which they were intended?
3.	Appropriateness	Are we going about achieving our objectives in the best way?
4.	Achievement of intended results	To what extent have goals and objectives been realized?
5.	Acceptance	Do those who use a program or service judge it to be satisfactory?
6.	Secondary impacts	Are there any significant consequences – intended or unintended and either positive or negative – occuring?
7.	Costs and Productivity	What is the relationship among costs, inputs and outputs?
8.	Responsiveness	How well does an organization anticipate and respond to change?
9.	Financial Results	How do revenues compare with costs? How do assets compare with obligations?
10.	Working Environment	Does the working environment promote commitment, initiative, safety and employee development?
11.	Protection of Assets	How well protected are key resources?
12.	Monitoring and Reporting	Does everyone have the information they ought to have? Do they use it?

The introduction of an effectiveness reporting framework is not easily done. It takes time and understanding and, most importantly, cannot be an imposition by outside forces, but must be one developed and accepted from inside. However, it is the view of those who have successfully implemented it in their organizations that

this mode of effectiveness reporting and analysis is not only beneficial, but essential and certainly here to stay.

Effectiveness in Health Care and Post-Secondary Education

The subject of effectiveness has been highlighted in recent statements relating to Nova Scotia's two largest government supported activities namely, health care and education. In Health Strategy For The 90's: Managing Better Health, released in November 1990, the Government has stated:

- the government is committed to increasing the effectiveness of our health system and to improving the health of Nova Scotians;
- the Government of Nova Scotia also will work to see the health care system is managed more effectively. This is the best way to ensure Nova Scotians will continue to have access to the top-quality health care they are entitled to at a cost they, as taxpayers, can afford.

Similar initiatives have been taking place in education. In 1989, the Government requested each of the 13 universities to prepare a Statement of Role and Planned Capacity. These Statements were considered necessary in order to address proposed revisions to university funding in the Province; to enhance the awareness of both government and the university community of the activities and aspirations of each university; and to serve as a basis for possible initiatives to improve the efficiency and effectiveness of post-secondary education in Nova Scotia.

Significant developments have taken place since the submission of these Role and Planned Capacity Statements, through the special efforts of the Council of Nova Scotia University Presidents and the Nova Scotia Council on Higher Education. Extensive discussions have been held between these two groups, and studies undertaken to review a series of key issues arising from an analysis of the Statements. These issues are focused on improving coordination and rationalization of many of the educational services currently being provided. It is particularly worth noting that these issues are being addressed on a Province-wide systems basis, directed towards matters of efficiency and effectiveness of operation.

Improvements Required

There are four matters of significance which must be considered in efforts to improve the accountability for and effectiveness reporting on government supported activities.

Policies – The first of these relates to the need for soundly based government policies regarding levels and types of services to be funded by taxpayer dollars. As the Royal Commission on Post Secondary Education noted in 1985, and the Royal Commission on Health Care in 1989, there were serious deficiencies regarding government policy direction. Recent initiatives by government, already discussed in this article, relating to health care and post-secondary education are extremely worthwhile initial responses to these criticisms. However, these initiatives cannot be limited to only health care and post-secondary education.

Beyond general policies, government must strive in conjunction with all those who provide services to develop meaningful and affordable levels of expectation. That is, there have to be more precise and measurable expected results. A framework, including expectations and standards which has been mutually agreed upon by both governing bodies and management, will have to be developed and used in a committed manner in order to accomplish what is expected of both parties.

Boards and Commissions – The role of boards and commissions must be significantly enhanced in the movement towards a greater degree of accountability and more sophisticated effectiveness reporting. Not only should boards be more involved in the evaluation of performance, the assessment of outcomes and results, and the appropriateness of corrective action; but they should have an accountability responsibility of their own to government.

This role will be unfamiliar to many currently serving as board and commission members, simply because of the evolving nature of these aspects of board responsibility. Accordingly, there will have to be indoctrination and follow-up for them in the concepts of accountability and effectiveness reporting, both now primary aspects of their responsibility.

Management Board – Within government itself, it is suggested there be an enhanced role for Management Board, a more encompassing one than they now have. It is our view that, entirely independent from any responsibilities for serving other departments or the public, there should be a body competent to assume aspects relating to coordination, monitoring and assessment, and empowered to prescribe required practices in selected areas. Although the Office of the Auditor General undertakes on a regular basis cyclical reviews of performance in many areas, the audit role is superimposed on an accountability relationship. The primary responsibility for accountability rests with government itself, so that awareness of unsatisfactory conditions and required remedial action can be dealt with promptly.

There are many functions for Management Board in fulfilling these responsibilities, but certain of those more relevant to the topic of accountability are:

- to initiate and supervise the development of management practices and systems for the efficient and effective operation of the government;
- to investigate new administrative techniques which have the potential to improve the management of government resources; and
- to monitor the use of government resources in the delivery of programs.

The procedures and practices used by individual departments should be subject to review and recommendation by a body aware of more acceptable practices elsewhere in government, which would contribute to the efficiency and effectiveness of a given department's operations.

This role of Management Board would be a delicate one, but it is one performed by staff groups in many types of organizations. Management Board will have to gain the confidence of individual departments, so that departments will accept the Board's role as one of assistance and counsel, rather than a big brother type of surveillance.

Information Systems – Perhaps the most critical ingredient for a successful accountability program and an effectiveness reporting structure is an adequate information system. Concerns for better information have been strongly emphasized in numerous studies and commentaries on the health care system, particularly as to the need for better data on results and outcomes. Inasmuch as health care is the single largest expenditure item for government, and the one which poses the greatest challenge to control, it would seem that government priority for development of better information systems should be directed to this field.

Concluding Remarks

In an attempt to focus on some of the more salient points arising from this discussion of the accountability process, the following are noted.

- There must be a recognition of the severity of Nova Scotia's current fiscal situation and certain future projections as they will affect the ability of government to finance essential services. Significant changes will have to be considered, and in many instances adopted, in order to achieve more efficient and effective deliveries of the essential services required by Nova Scotians.

- Ultimate responsibility for decision and support with regard to these various initiatives rests with the Provincial Government legislators. But the task of developing what is necessary will have to be shared among many groups, including not only legislators but also members of boards and commissions, senior management in those entities directly dependent upon government assistance, and senior public servants.

- The foundation for accountability for expenditure of funds, either by government itself or by those entrusted by government to administer programs, is an integral part of the democratic process. This system involves independent objective reviews of government expenditures, usually by Legislative Auditors, and in some cases by others charged with such responsibility. To deny these two aspects of our system, is in fact to deny a fundamental of democracy.

- The reaction to a need for an enhanced degree of accountability and the implementation of more efficient and effective ways of administration, including better effectiveness reporting will require coordination, cooperation, and understanding among various groups involved. It will, on occasion, require significant modifications to the current ways of doing many things.

Audit Function in Government

Summary

The purpose of this article is to provide further amplification of what the role of the Office of the Auditor General is and should be, with particular reference to departmental broad scope audits and the audit of the Public Accounts of the Province.

During 1990, in the conduct of certain audit assignments, there was a clear indication of a lack of understanding of the role of the Legislative Auditor in Nova Scotia. The Auditor General was questioned with respect to his right to audit the project management associated with the acquisition and development of computer resources in the Province; and also to audit the procedures used to perform credit union inspections in the Department of Consumer Affairs.

I want to emphasize that, in the conduct of our audits, the vast majority of those with whom we deal in the departments and agencies not only demonstrate a respect and consideration for the Office's mandate, but understand the role of this Office. They accept the need for an independent review on behalf of the Legislature.

In my opinion the current arrangement for the audit of the Public Accounts of the Province does not meet certain accepted practices employed elsewhere in government jurisdictions similar to the Province of Nova Scotia.

Primarily the reporting relationship to a Department of Government, one which is essentially a service operation of government, and not to the Legislature itself, is inappropriate. As a result of this reporting relationship, one government department assumes responsibilities that I suggest, are not necessarily its mandate.

Introduction

The purpose of this article is to provide further amplification of what the role of the Office of the Auditor General is and should be, with particular reference to departmental broad scope audits and the audit of the Public Accounts of the Province.

This is being done at a time when two significant developments are occurring within the Province. One of these relates to the Public Accounts Committee, currently engaged in an extensive review of its role and mode of operation. This includes its relationship with the Auditor General and the role of the Auditor General in support of the Public Accounts Committee.

A second development involves a reorganization of certain of the departments of government with a view to consolidating and making more efficient the general operation of government.

This Annual Report includes an article on the Role and Responsibilities of the Auditor General, which may be found on page 18. It states the primary objective of the Auditor General is to assist the Legislature in holding the government and its administrators accountable, by reporting to the Legislature on the quality of the administration's stewardship of public funds. This article describes:

- The three types of audits performed by our Office, which are attest audits including opinions on entities' financial statements and evaluations of internal controls; compliance audits assessing compliance with legislation and other requirements; and broad scope audits which focus on the actual management of functional areas.

- There are two other participants in the overall audit process for government. One of these is internal audit, the purpose of which is to assist members of management in the effective discharge of their responsibilities. To this end internal auditing furnishes management with analysis, appraisals, recommendations, counsel and information concerning activities reviewed with the objective of promoting effective control at reasonable cost.

- The third participant in the audit process is private sector auditing firms engaged in the audits of crown agencies and corporations. Nova Scotia is the only Province in Canada that engages a public accounting firm to attest to its financial statements.

The Expanded Role of the Auditor General

Since the mid 1970's the role of Legislative Auditors in all jurisdictions in Canada, except Newfoundland and Labrador, has been expanded substantially. In Nova Scotia this expansion has included the mandate to examine management practices and systems in crown corporations and transfer payment recipients; and to assess whether expenditures have been made with due regard for economy and efficiency. The Auditor General Act of 1973 with significant amendments in 1988 is the legal basis for this Office's mandate.

However during 1990, in the conduct of certain audit assignments, there was a clear indication of a lack of understanding of the role of the Legislative Auditor in Nova Scotia.

In the fall of 1990 the Auditor General was questioned with respect to his right to audit the project management associated with the acquisition and development of computer resources in the Province; and also to audit the procedures used to perform credit union inspections in the Department of Consumer Affairs.

I was invited to meet with the Deputy Ministers of Government in early November to explain the reasons for our project management audit, and to justify our right to do so. Although a reasonably satisfactory meeting was held in connection with this matter, our ability to finalize the first phase of this assignment was significantly delayed because of this intervention, and difficulties encountered in obtaining information on certain projects.

I want to make it eminently clear that, in the conduct of our audits over the years that I have been with this Office, the vast majority of those with whom we deal in the departments and agencies not only demonstrate a respect and consideration for the Office's mandate, but understand the role of this Office. They accept the need for an independent review on behalf of the Legislature, and are prepared to consider possible improvements that could be initiated.

Unfortunately, there are a very small number who do not understand the role of the Office. Their point of view is one which questions the right of the Office to inquire into the basic processes and systems in place to manage government resources.

I acknowledge that our Auditor General Act requires us to report annually upon the results of our audit findings. The fact that these are made public in an Annual Report discussed before the Public Accounts Committee might not sit well with some. However, in the democratic system within which we operate, public servants in all jurisdictions are subject to review by Legislative Auditors and a reporting of the auditor's findings, conclusions, and recommendations to an elected Legislature.

What is sometimes lost sight of is that the Auditor General Act includes provisions for examination of management's performance in both crown agencies and entities in receipt of government assistance. Articles will be found, not only in this year's Annual Report but in prior ones as well, reporting on the results of our reviews in entities such as these. Therefore, it is difficult to understand why certain senior public servants feel that they should not be subjected to the same kind of review and reporting of audit results.

It is clear to me that an audit office such as ours has not only the right but the responsibility to review processes and systems with regard to the management of government resources within the departments of government. We must be able to evaluate whether these are working as intended, or whether there are deficiencies or voids which must be addressed. In effect all activities of the departments of government should be subject to audit review in this manner.

Criteria For Audit in Government

A second focus of this article is to pursue more deeply the reasons why the Office of the Auditor General should be assigned the responsibility for the audit opinion on the financial statements of the Province. In so doing several criteria relating to this audit responsibility are described in the following paragraphs. It would be inappropriate for me to attempt an evaluation of the government's external auditors against these criteria. The intent is to stress that the Office of the Auditor General fully meets these criteria.

- *Independence* – The audit entity to whom is assigned responsibility for audit opinion on the Public Accounts should possess the requisite degree of independence for such an assignment. It should be noted that there is no question in the other 10 jurisdictions in Canada that such independence is accepted in the case of the jurisdiction's Legislative Auditor.

- *Competence* – The audit entity must possess a requisite degree of competence to perform the audit of the Public Accounts. In our jurisdiction this is clearly established by the fact that a large portion of the data for the Public Accounts of the Province are already subject to audit by our Office, and have been for a number of years. In addition, the Office's staff possess the requisite professional auditing qualifications to perform this assignment.

- *Objectivity* – Closely allied to independence is the criterion of objectivity, one which is paramount in connection with an expression of an opinion on a set of statements such as the Public Accounts of the Province. The objectivity of this Office has been clearly established, not only in its expression of opinion on other entities' financial statements for which it has the audit responsibility, but also for the other audit endeavours upon which it is required to report.

- *Reporting Relationship* – The report for a financial statement opinion is normally to the owners or shareholders of the entity concerned. In many crown agencies and corporations this is directed jointly to the Board of Directors and the Minister with responsibility for the entity. In the case of the Province, the House of Assembly is clearly the entity to whom reporting of audit opinions should be directed. This is the case of the Annual Report of this Office and should be the case for an audit opinion on the Public Accounts. However, in Nova Scotia, this opinion is directed to the Minister of Finance, as required by the Provincial Finance Act.

- *Access and Scope* – In order to fulfill an assignment of this magnitude, there must be complete access to relevant information throughout government. Our Office already possesses this complete access, and is continually exercising it in the conduct of the various audit assignments we have in an audit year.

Audit of the Public Accounts

The current situation with respect to the audit of the Public Accounts of the Province has the following characteristics.

- The external auditors are engaged to provide an opinion on the financial statements to the Minister of Finance. The audit appointment is authorized by Governor in Council on an annual basis in accordance with Section 65 (1) of the Provincial Finance Act. For the March 31, 1990 year the audit fee was $213,450.

- The external auditors also provide annually a management letter to the Deputy Minister of Finance on the subject of reviews they conduct in most departments of government. Some of the items reported upon relate directly to their responsibility for an expression of an opinion on the financial statements. However, in my view, some deal quite specifically with non-Public Accounts financial statement matters. They go far beyond what I consider necessary audit inquiry related to the financial statements.

- The Department of Finance follows up certain of the audit observations in the external auditor's management letter with the departments concerned. The Department of Finance, according to Section 16 of the Provincial Finance Act, has the responsibility for determining *"the method of keeping all accounts of the public service and the selection of the books of account and the forms used therein."* However, there are areas commented upon by the external auditors which do not appear to be a direct responsibility of the Department of Finance under current legislation.

- There is clearly an unnecessary duplication of work by the external auditors over and above that performed by the Office of the Auditor General. This point has been noted in previous Annual Reports of this Office. Since our audit and reporting requirements, as established by Statute, require the scope of coverage that we do, there is an unnecessary duplication of effort when a second external auditor is also appointed.

The following examples illustrate the foregoing.

- Under the caption Program Planning Process, in their September 14, 1990 management letter the auditors state, *"The scope of our assignment does not extend to a review of this area. We have, however, made general inquiries concerning the extent to which the Program Planning Process has been the source of program planning reduction rationalization. We were advised that little has been achieved in this regard. ....We recommend that the Province seriously review the role of the Program Planning Process in this regard."*

  In my view, this matter is one of policy and administration, not an issue relating to the opinion on the financial statements of the Province. Moreover, it is not a matter for which the Department of Finance has either the responsibility or mandate to initiate change. It would seem to be a matter lying within the purview of Management Board, a body to which the external auditors do not report, nor from whom have they received, to the best of my knowledge, any audit responsibilities regarding an issue such as this.

- In their September 14, 1989 management letter, the auditors have a lengthy commentary regarding the Provincial Tax Commission. They deal with matters concerning the aging of accounts receivable, allowance for doubtful accounts, appeals, and information systems.

  Our Office, in each of the years 1987-88 and 1988-89, conducted in-depth reviews of the Provincial Tax Commission and these were reported upon to the Department of Finance. Articles summarizing our audits were included in our Annual Reports. The material included in the external auditors' letter to the Department of Finance is largely a repetition of what we reported and therefore, is in our view, an unnecessary duplication of both time and effort for the auditors and for the Department of Finance in responding to them.

- In their September 14, 1990 management letter, under a section devoted to the Department of Health and Fitness, there is a commentary which notes *"We have been advised of the Province's intent to make the Victoria*

General Hospital a more independent operating entity. This course of action will, undoubtedly, give rise to evaluations of many aspects of hospital management that may be affected. Implications of the recommendations contained in the report of the Royal Commission on Health Care will also likely be a factor in this planning and evaluation process."

Their letter lists seven key issues on which they recommended that the Province focus at an early stage of the Planning Process. These are strength of financial management, budgetary responsibilities and accountability, financial and management information system requirements, operating cash flow constraints, cash flow management, internal control systems, and the role of internal audit.

Not only is our Office the appointed auditor of the hospital, but most of the above items were included in our report on an in-depth review of financial management and related matters of June 1989. In addition, we are aware that a Transition Committee has been in place since March 1990. It includes representatives of the hospital and key departments from government such as Finance, Health and Fitness, and Management Board. This Committee and others are dealing with key matters relating to the transition to a more independent status.

We are at a loss to understand why the external auditors feel that this is a matter upon which they must comment.

- In their September 14, 1989 management letter, the external auditors have comments regarding the Department of Health and Fitness. In one section under general hospital services, there is a lengthy discussion of hospital expenditures comparing actuals to the estimates, tabulating hospital deficits, and noting their concern as to the number of hospitals spending in excess of approved budgets. It is our contention that all of these matters are administrative ones for the Department, matters that are well known not only by the Department itself, but by Management Board. The rationale for the external auditors, as part of their year-end financial statement audit responsibility, providing a commentary on these matters is difficult to understand.

Concluding Remarks

The Auditor General Act includes a mandate for the Auditor General to perform audits which involve a review of the processes and systems concerning management of resources in government departments, crown agencies and recipients of government assistance. It is my expectation, on the basis of the background provided in this article, that there will be a better understanding and acceptance of this mandate.

Perhaps the most significant matter arising from the audit of the Public Accounts, and the manner in which it has been conducted in recent years, are fundamental questions relating to responsibility within government. More specifically:

Who is responsible for monitoring departmental performance in a variety of administrative areas?

Is this monitoring the responsibility of Management Board or the Department of Finance, both or neither?

Does the Department of Finance have the mandate under the Provincial Finance Act, or whatever other directives have been issued, to pursue within individual departments the types of matters raised in the annual management letters of the external auditors?

I submit that these questions must be addressed, because at present we have three significant issues to be resolved.

- One is an unnecessary and expensive duplication of audit effort in government.
- Another is a diffused and somewhat unclear set of responsibilities and reporting relationships regarding certain administrative activities within the departments of government.
- Finally, an audit arrangement concerning the Legislative Audit Office, which is not only unique in Canada, but in my view not appropriate in terms of accountability to the House of Assembly.

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FINANCIAL TOPICS

Financial Position and Operating Results

Our Annual Reports for the past several years have included commentaries on the financial position and operating results of the Province. Again this year we comment on these same topics.

The current year produced an operating deficit, or excess of current operating expenditures over revenue and recoveries, of approximately $62 million. This compares with $61 million in 1988-89, but was $13.3 million greater than that included in the Estimates for the 1989-90 fiscal year.

The financial position of the Province, as reflected in its net debt, continued to deteriorate because of continuing deficits on operations and capital expenditures. The assumption of the debt of Sydney Steel Corporation by the Province on January 31, 1990 resulted in an increase of $341 million in the Province's net debt during the year.

The Government, in its Budget Address of April 27, 1990, indicated that the 1990-91 fiscal year would be a very difficult one due to reductions in federal transfer payments and a general slowdown of the Canadian and Nova Scotian economies. Although the Government repeated its commitment to deficit reduction and its plan to achieve a balanced budget in 1991-92, these aspirations have been modified as announced in a formal statement of the Minister of Finance on December 19, 1990.

In this statement, he advised that implications of the recession currently being experienced throughout Canada have resulted in revised projections for the 1990-91 fiscal year. A deficit of approximately $150 million is now expected because of a combination of lower than expected revenues, and expenditures rising at a greater rate than anticipated.

Net Debt

The most commonly used indicator of a Province's financial position is its net debt, which is the excess of liabilities over realizable assets. The net debt is the sum of the accumulated operating deficits of the Province and capital expenditures. The Statement of Financial Position in the Public Accounts highlights this amount.

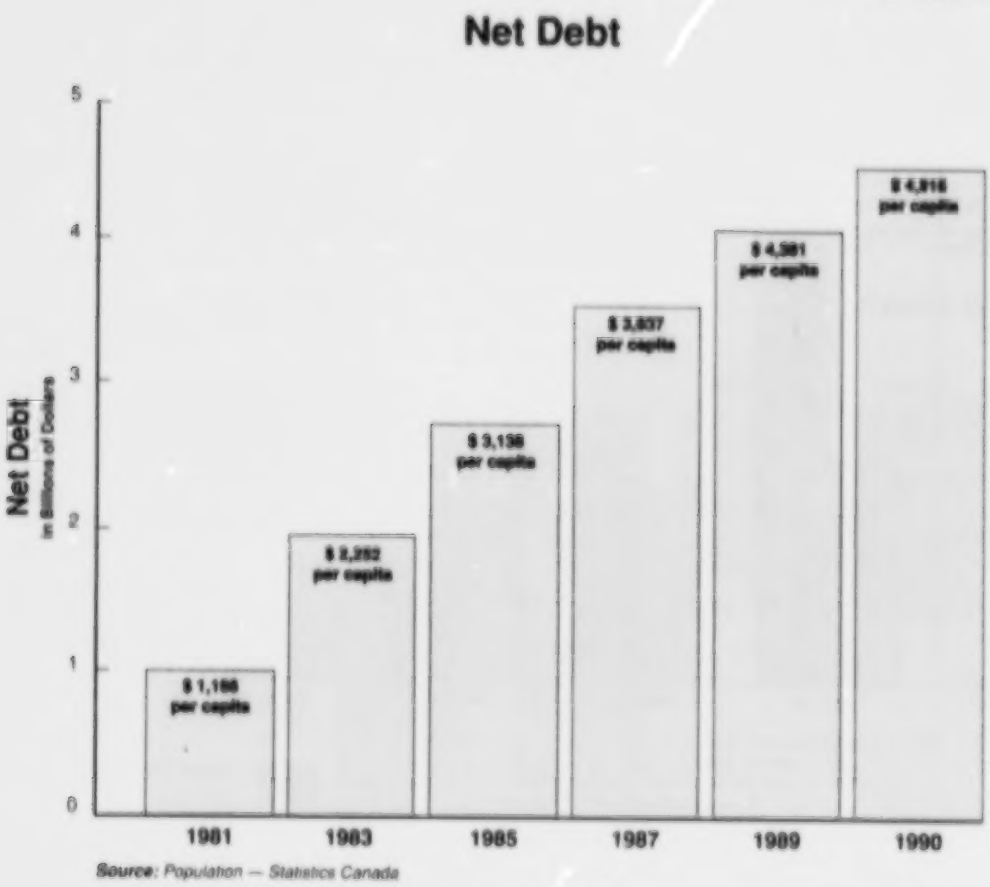
During the period from April 1, 1989 to March 31, 1990, the net debt increased by $507 million or 12.8% to $4.5 billion. As mentioned previously, $341 million of the increase was due to the assumption of the debt of Sydney Steel Corporation by the Province on January 31, 1990.

Over the past decade, the net debt has increased to more than five times its 1980 level, from $778 million to $4.5 billion. This increase of $3.7 billion is attributable to:

Capital expenditures	$2.1	billion
Net excess of operating expenditures over operating revenues	2.4	
	4.5	
Less: Sinking fund earnings	.8	
	$3.7	billion

Of the $3.7 billion increase in the net debt over the past ten years, 53% is attributable to operating deficits and 47% to capital expenditures. Exhibit I illustrates the growth of the net debt over the past ten years.

Exhibit I



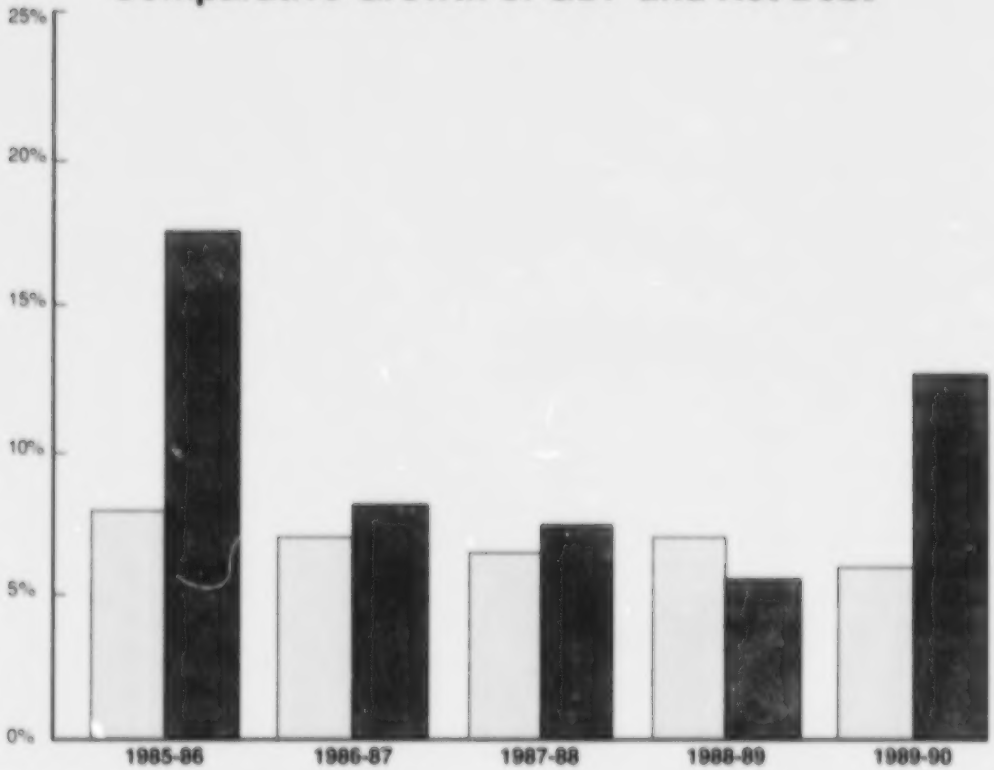
Source: Population — Statistics Canada

One of the measures used to evaluate the net debt of a government is a comparison of the rate of growth of the net debt to the rate of growth of the economy. The Gross Domestic Product, which represents the value of all goods and services produced in the Province in the year, is used by economists to measure growth in the economy.

Exhibit II compares the percentage change in the Province's Gross Domestic Product to the percentage change in the net debt over the past five years. The graph shows that during the past year the rate of growth of the net debt has exceeded the Province's economic growth, largely because the debt of Sydney Steel Corporation was assumed by the Province.

Exhibit II

Comparative Growth of GDP and Net Debt



Sources: *Gross Domestic Product —*
1984 to 1988 Statistics Canada
1989 to 1990 The Conference Board of Canada
Forecast of Key Economic Indicators

Operating Deficit

The second measure of financial performance is the operating deficit or surplus for the year. The Statement of Current Revenue and Expenditure in the Public Accounts shows this amount as "Excess of Current Operating Expenditure over Revenue and Recoveries". It is the excess of the total current expenditures for all government departments, including grants and assistance and debt service costs, over the total operating revenues for the year.

The operating deficit for the year ended March 31, 1990 was $62 million, an increase of $.6 million or 1% over the 1989 operating deficit.

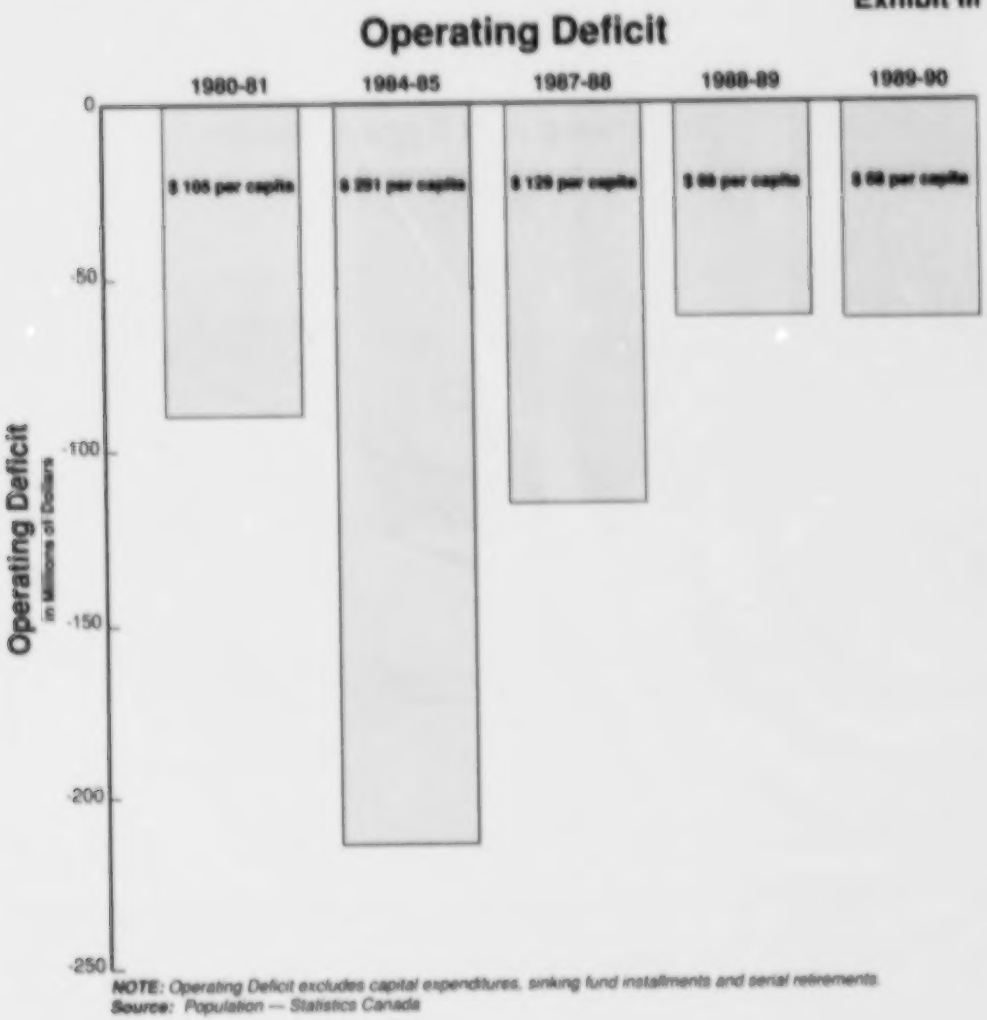
In 1989, the Government announced an operating deficit target of $48.4 million for 1989-90. The actual results for the year show that the deficit exceeded the target by $13 million or 27.5%.

For 1990-91, the Government announced a target for the operating deficit of $27.4 million. There were also plans to achieve a balanced budget in 1991-92. As already noted, at the time of writing this Report (early 1991), the revised operating deficit projection for 1990-91 is $150 million.

Ongoing operating deficits have been the major factor contributing to the net debt of the Province. The Government's plans to eliminate operating deficits are commendable, but very difficult to achieve in a period of slow economic growth. However, we cannot over emphasize the necessity of continued efforts to reduce and eventually eliminate the operating deficit.

Exhibit III shows the operating deficit of the Province for selected years over the past ten years.

Exhibit III



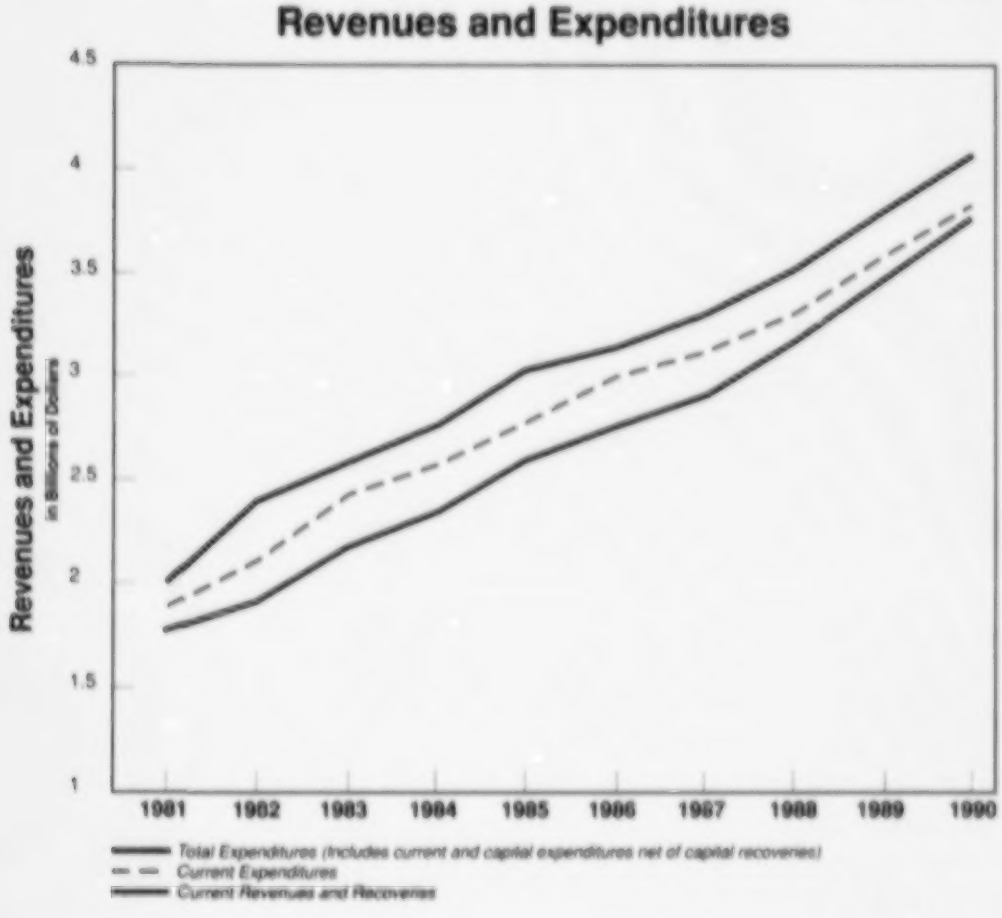
NOTE: Operating Deficit excludes capital expenditures, sinking fund installments and serial retirements.
Source: Population — Statistics Canada

The Province also incurred capital expenditures during the year. These include expenditures for highways, construction and expansion of government buildings, equipment, and grants for buildings and equipment for hospitals and other institutions. Capital expenditures are not included in the calculation of the current year's operating deficit, but they do increase the net debt. During the fiscal year ended March 31, 1990, capital expenditures of the Province were $339 million, a 13% increase over the 1989 figure.

Exhibit IV presents the total current revenues and recoveries, the current expenditures and the total expenditures of the Province over the past ten years. This graph demonstrates that expenditures grew faster than revenues during the past year.

It is important to note that the net debt of the Province will continue to increase unless current revenues and recoveries exceed total expenditures.

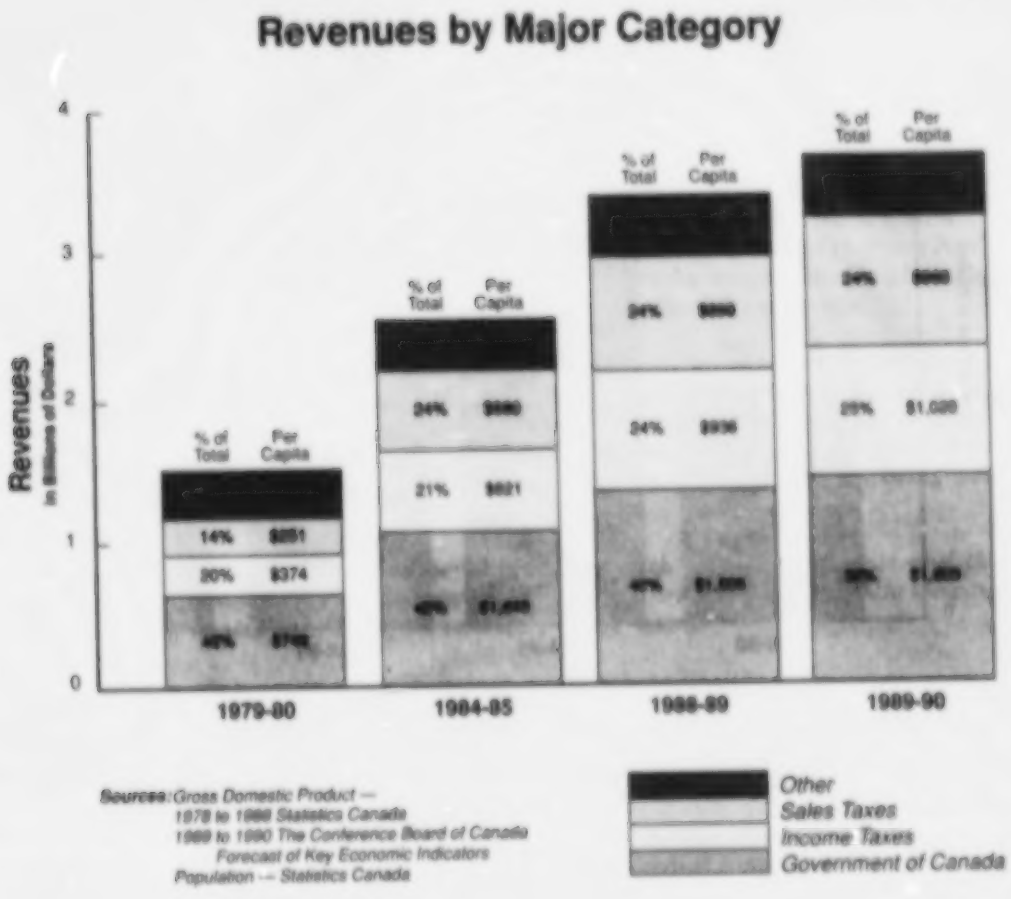
Exhibit IV



Revenues and Expenditures

To gain a better understanding of operating results it is useful to examine the trend of significant revenue and expenditure amounts. Exhibit V shows the revenues of the Province by major category for the current year, the previous year, five years ago, and ten years ago; while Exhibit VI shows total expenditures (current and capital) over the same period. Both graphs include the per capita amounts.

Exhibit V



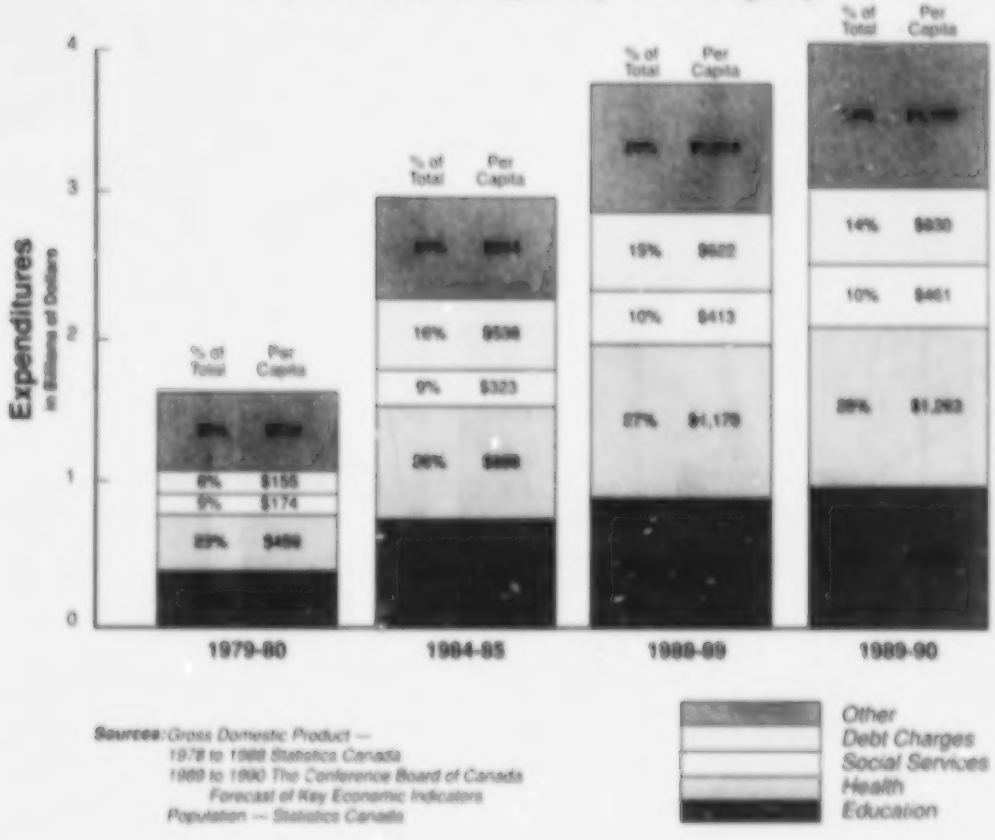
Sources: *Gross Domestic Product — 1979 to 1988 Statistics Canada; 1989 to 1990 The Conference Board of Canada Forecast of Key Economic Indicators*
Population — Statistics Canada

During the 1990 fiscal year, revenues increased by 8% over 1988-89 while operating expenditures increased by 7%. The increase in revenues was primarily attributable to an increase in the equalization payments received from the Federal Government, income taxes and sales taxes.

The effect of the increasing net debt of the Province on debt servicing costs and total expenditures is apparent on Exhibit VI. Although debt service costs remained at approximately the same level in 1989-90 as in the previous year, the 1989-90 figure represents more than four times the debt service charges of ten years ago.

Exhibit VI

Expenditures by Major Category



Sources: *Gross Domestic Product —*
1978 to 1988 Statistics Canada
1989 to 1990 The Conference Board of Canada
Forecast of Key Economic Indicators
Population — Statistics Canada

When debt service charges represent such a significant percentage of total revenue (currently 15%), the amount of revenue available for other government services and programs is obviously reduced. In periods of slow revenue growth, like the one which we are currently experiencing, a large expenditure for debt charges seriously impedes the Government's ability to maintain necessary levels of spending in other areas. Limiting the growth of the net debt and resulting debt charges is extremely important.

The Government's Budget Address of April 27, 1990 included the following comments relating to the level of expenditures.

"The costs of health, education and social services have risen dramatically over the last ten years. These expenditure areas account for approximately three-quarters of all program spending in government and it is imperative that they play a major part in the expenditure control process. This will require the effort and co-operation of all departments, agencies and institutions involved in the delivery system.

The reduction of the expenditure base is an absolute necessity to ensure the government's ability to meet the long-term changing needs of Nova Scotians."

We agree with the Government's assessment of the seriousness of the Province's financial position and the need to control expenditures tightly.

Health care expenditures of $1.14 billion were the largest single expenditure incurred by the Province during 1989-90. They accounted for 28% of total expenditures and represented an increase over 1988-89 of $91 million or 8.6%.

In November 1990, the Government released "Health Strategy for the Nineties: Managing Better Health" which indicates how the Government of Nova Scotia, in partnership with health care professionals and the public, intends to improve Nova Scotia's health system. The following excerpt from that document describes how the Government will approach the problem of increasing health care costs.

"The Government of Nova Scotia also will work to see the health care system managed more effectively. This is the best way to ensure that Nova Scotians will continue to have access to the top-quality health care they are entitled to, at a cost they, as taxpayers, can afford. Those responsible for managing health services must be prepared to account for taxpayers' dollars, and show that the funds are being well spent.

The Government will, in cooperation with health care professionals and the public, work to maintain and improve the quality of health services, while slowing the growth of health care costs. To achieve this we must:

- *do more to prevent disease and promote health;*
- *manage financial and human resources more carefully, to get better results for the money spent."*

The emphasis on obtaining greater efficiency and effectiveness and increased accountability from those responsible for managing the health care system appears to be an appropriate course of action towards achieving control over health care expenditures in the Province.

Comparison of Actual Results to Estimates

A fourth measure of fiscal performance is the comparison of the year's actual results to the Estimates for operating revenues and expenditures. This analysis shows how well the Government has followed the fiscal plan submitted to and approved by the Legislature.

For the year ended March 31, 1990, the total revenues and recoveries of $3,688 million were .5% ($18 million) less than the estimated figure of $3,706 million. The only amounts which varied from the Estimates by more than 5% were revenues from the Federal Government relating to Shared Cost Programs (8% or $19 million below the estimate) and interest revenue (17% or $13 million above the estimate).

Actual operating expenditures of $3,774 million were .5% ($19.5 million) above the estimated figure of $3,754 million. The only expenditures which exceeded the approved estimates by more than 5% were Resource Development (excess of 14% or $26 million) and Culture and Recreation (excess of 6% or $2 million). Debt charges were less than the estimated figure by $38 million or 6%.

Actual capital expenditures exceeded the approved estimate by $55 million or 19% due primarily to the acquisition of more than 122,000 acres of woodland which will enhance the Province's ability to support further development of the forest industry.

The "Additional Appropriations" article on page 55 provides further details on the comparison of actual results with the approved Estimates.

For operating revenues and expenditures, the Government followed the fiscal plan approved by the Legislature fairly closely during the year. The combination of lower than anticipated revenues ($18.0 million) and higher than anticipated expenditures ($19.5 million) resulted in a deficit $37.5 million greater than estimated. A prior years' adjustment in Federal-Provincial Fiscal Arrangements of $24 million, which could not be estimated, brought the total excess of current operating expenditure over revenue and recoveries to within $13 million of the Estimates. For capital expenditures, there was a significant excess of actual expenditures over the approved estimate.

Impact of Debt

We have commented on the magnitude of the Province's debt in previous Annual Reports. However, the issue of government debt is so important that it warrants further commentary in this Report.

During the past several years the impact of government debt has been discussed widely by the media, economists, auditors and others. There is general agreement on the need for governments to carefully monitor and control any deficit situation in order to prevent the level of debt charges from consuming an inordinate amount of government revenues.

The Province of Nova Scotia has a total debt of $5.6 billion and a net debt (after deduction of realizable assets) of $4.5 billion as shown in Exhibit I. For the 1990 fiscal year, the debt charges (excluding principal repayments) paid by the Province amounted to $571 million or approximately $630 for each citizen of the Province.

Because of the size of the Province's debt, there must be an acknowledgement of the need for a concerted effort to contain its growth. This becomes increasingly difficult in an economic environment like the one we are now experiencing. The government's ability to increase revenues by raising taxes is limited because of the recent introduction by the Federal Government of the Goods and Services Tax. It

is also difficult to cut program spending during an economic slowdown such as we are now facing.

We must acknowledge that reduction of the annual deficit is the only way to curb the growth of the Province's debt. All of us as citizens of the Province must be willing to pay a small price now to ensure that debt charges will not grow to exorbitant levels in the future.

Concluding Remarks

Ideally, the ultimate objective should be to reduce the size of the Province's net debt. A reduction will not occur unless the Province's annual revenues exceed the total of its operating and capital expenditures. We acknowledge that this objective is not attainable in the short term due to the current economic conditions in the Province and country, and the history of operating deficits in past years.

A more realistic short-term objective is to eliminate operating deficits and move towards borrowing for capital requirements only. The Government, in its Budget Address of April 27, 1990, shows that it is aware of the need to eliminate the annual deficit. The following quote from the Budget Address articulates this need.

"Meeting the fiscal requirements for the coming year will require an understanding by all Nova Scotians of the fiscal realities we are facing. As stated in previous budgets, we cannot meet these demands through deficit financing.

Deficits increase the cost of servicing the debt, restricting the funds available for other program and service areas. This is why it is imperative to eliminate the deficit. If we do not, it becomes more difficult to meet the essential needs of all Nova Scotians."

Being aware of the need to eliminate the deficit and having a multi-year plan to reach that goal will not be enough. The key step must be fulfilment of the plan, and that is what we as a Province have been unable to achieve to date. Current economic conditions indicate that the challenges facing the Government and the tax-paying public in deficit reduction are increasing.

Nonetheless, a fiscal plan and program involving some extremely difficult decisions will unquestionably have to be adopted in order to sustain the essential services of government at an appropriate level. The "Accountability Process" article on page 30 includes a more detailed commentary on certain aspects of expenditure control based upon observations gathered from audit assignments over the past few years.

Additional Appropriations

Every year the Estimates representing the Government's spending plans are approved by the Legislature. The Estimates are summarized in the Appropriations Act, which authorizes spending amounts by program for the coming year. The Provincial Finance Act allows adjustments to these spending plans in the form of additional appropriations, which must be authorized by the Governor in Council. Additional appropriations are not scrutinized or approved by the Legislature. Con-

sequently, Government is responsible for ensuring its original spending plans are as realistic as possible.

The Appropriations Act, 1989 contains 119 votes for current expenditures totalling $3,853 million. Sixty-four of these votes required additional appropriations amounting to $126.3 million. Twenty of the 25 government departments required additional appropriations. Additional appropriations totalling $32.6 million were authorized for eight capital expenditure votes. Ten votes required two additional appropriations. One vote required three additional appropriations. Four additional appropriations totalling $2.1 million for current expenditure votes were not required. One additional appropriation of $2.3 million for a capital expenditure vote was not required.

The total additional appropriations approved for the 1989-90 fiscal year is the highest of the last seven years, as shown by the listing below.

Additional Appropriations ($ Millions)

Year	Current	Capital	Total
1989-90	126.3	32.6	158.9
1988-89	87.6	16.8	104.4
1987-88	50.4	8.4	58.8
1986-87	38.2	4.9	43.1
1985-86	113.6	2.2	115.8
1984-85	70.6	.2	70.8
1983-84	35.1	27.7	62.8

Overexpenditures in the Departments of Health and Fitness; Transportation and Communications; and Industry, Trade and Technology accounted for 64% of the additional appropriations.

An additional appropriation of $41 million for Health Programs was approved for the 1989-90 fiscal year. The original budget did not provide for increases in salary and benefit costs for nurses, technicians, and the staff at the hospitals resulting in an additional requirement of $33.3 million. Actual costs of the Victoria General Hospital exceeded budget by $7 million, and additional costs for services in other hospitals amounted to $1.5 million. These were offset by $.7 million in savings in other areas.

Additional appropriations of $9.3 and $1.0 million for the 1988-89 and 1989-90 fiscal years respectively were approved for the Health Services and Insurance Commission. These additional appropriations were requested because the utilization of services was greater than projected.

Our Annual Reports for the four years 1986 to 1989 inclusive, noted an excess of expenditures over the Estimates for Snow Removal and Ice Control by the Department of Transportation and Communications. Again in 1989-90, additional appropriations were required for the Maintenance, Transportation Systems vote in the amount of $9.1 million. This amount represented an overexpenditure of $8.1 million in Snow Removal and Ice Control, and $1.0 million in other areas within the vote.

Additional appropriations for capital expenditures were authorized for the Transportation vote for $24.4 million. Due to late tender calls, contracts chargeable

to the Offshore Development Fund totalling $5.7 million were not completed in time to be claimed from the Fund by March 31, 1990. These costs will be recovered in 1990-91. Exceptionally fine weather enabled the Department to complete $18.7 million more work than was anticipated.

An additional appropriation of $25.1 million was approved for the Department of Industry, Trade and Technology, General Administration vote. An expenditure of $27.9 million was required to provide for losses on loans relating to the Industrial Development Act. The amount was not included in the Estimates of the Province. The expenditure was offset by $2.8 million in savings in other areas to arrive at the $25.1 million additional appropriation.

Again this year I draw attention to the delay in approving additional appropriations. In 70 of the 84 instances where additional appropriations were required, the overexpenditure occurred before the date that the additional appropriation was authorized. These 70 additional appropriations totalled $153.2 million and the interval between the time of the overexpenditure and approval of the additional appropriation averaged 134 days (within a range of 13 to 353 days).

Thirty-eight of these additional appropriations totalling $71.2 million were approved in the months of September and October– over five months after the end of the fiscal year.

The following schedule provides further information on additional appropriations approved for the March 31, 1990 fiscal year. It lists those for $50,000 or greater, totalling $158.6 million or 99.8% of the amount of $158.9 million approved for the year. In addition to showing the approval date, this schedule also reflects the actual amount spent.

Appropriations Greater Than $50,000
For The Fiscal Year Ended March 31, 1990

Department	Date Approved	Authorized	Expended
Advanced Education and Job Training			
General Administration	July 24/90	$86,900	$86,900
Assistance to Universities	Sept.18/90	134,800	134,707
Agriculture and Marketing			
Nova Scotia Agricultural College	Oct.23/90	303,682	303,682
Attorney General			
General Administration	Mar.13/90	811,100	811,100
Law Administration	Mar.13/90	112,300	112,300
Public Offices	Mar.13/90	64,800	64,800
Registry of Joint Stock Companies	Mar.13/90	175,000	98,988
General Administration	Apr.24/90	50,000	50,000
General Administration	Sept.18/90	329,999	329,999
Law Administration	Sept.18/90	97,783	97,783
Public Offices	Sept.18/90	111,398	111,398

Department	Date Approved	Authorized	Expended
Community Services			
Administration	Apr.24/90	973,700	—
Public Assistance	Apr.24/90	5,864,800	4,695,659
Education			
Grants and Assistance	Sept.18/90	6,726,126	6,726,126
Finance and Budgeting	Sept.18/90	73,766	73,766
Education Resource Services	Sept.18/90	218,400	218,297
Curriculum Development	Sept.18/90	334,557	334,557
Capital Grants	Sept.18/90	1,227,800	1,227,668
Environment			
Environment	Sept.18/90	344,496	344,496
Capital Grants	Oct.2/90	717,755	717,755
Finance			
Unclassified and Unforeseen	Aug.22/89	100,000	100,000
Unclassified and Unforeseen	Nov.21/89	50,000	25,702
Provincial Tax Commission	Apr.24/90	74,200	—
Sinking Fund Installments	Oct.2/90	2,313,971	2,313,671
Government Services			
Public Works and Special Projects (capital)	Apr.24/90	2,357,000	—
General Operations	Sept.18/90	3,475,470	3,475,470
Health and Fitness			
Health Programs	Apr.24/90	41,060,500	39,758,581
Health Services and Insurance Commission	Sept.18/90	985,100	985,064
Housing			
Subsidies	Oct.23/90	1,638,719	1,638,719
Industry, Trade and Technology			
Economic Planning and Technology	July 24/90	70,000	67,934
General Administration	Oct.23/90	25,144,616	25,144,616
Labour			
General Operations	Apr.24/90	63,000	63,000
Lands and Forests			
Other (capital)	Apr.24/90	1,722,100	1,604,103
Furniture and Equipment (capital)	Apr.24/90	116,000	98,175
Administration and Planning	Apr.24/90	649,000	482,519
Operations and Land Services	Apr.24/90	883,500	604,355

Department	Date Approved	Authorized	Expended
Municipal Affairs			
Finance and Advisory Services	Jan.30/90	700,000	700,000
General	Apr.24/90	791,500	729,389
Finance and Advisory Services	June 26/90	283,600	222,314
Public Service			
Election Expenses	Aug.8/89	86,000	—
Nova Scotia Research Foundation Corporation	Sept.19/89	197,000	197,000
Canada — Nova Scotia Offshore Oil and Gas Board	Mar.13/90	111,500	111,500
Expropriation Compensation Board	Mar.13/90	50,000	28,894
Nova Scotia Research Foundation Corporation	Mar.13/90	113,000	113,000
Upper Clementa Family Theme Park (capital)	Mar.13/90	2,000,000	2,000,000
Art Gallery of Nova Scotia	Apr.24/90	254,800	254,800
Human Rights Commission	Apr.24/90	137,800	137,800
Nova Scotia Sport and Recreation Commission	Apr.24/90	213,700	124,923
Workers' Compensation Board	Apr.24/90	750,000	703,818
Waterfront Development Corporation	July 24/90	138,000	138,000
Cabinet Secretariat	Sept.18/90	146,107	146,107
Commission of Inquiry concerning Donald Marshall, Jr.	Sept.18/90	599,397	599,397
Ministers' Salaries and Expenses	Sept.18/90	54,229	54,229
Protocol Office	Sept.18/90	485,815	485,815
Royal Commission on Health Care	Sept.18/90	980,228	980,228
Legislative Expenses	Sept.18/90	1,012,145	1,012,145
Nova Scotia Information Services	Sept.18/90	73,639	73,639
Office of the Ombudsman	Oct.2/90	79,872	79,872
Small Business Development			
Small Business Programs	Sept.18/90	1,970,800	1,970,800
Nova Scotia Business Capital Corporation	Oct.23/90	6,306,700	6,306,665
Other Agencies	Oct.23/90	189,300	189,280
Solicitor General			
General Administration	Apr.24/90	1,771,700	1,751,408
Policing Services	Apr.24/90	324,200	165,404
Tourism and Culture			
Department Operations	Mar.13/90	4,492,300	4,478,698
Hotel Operations	Apr.24/90	300,200	295,101
Transportation and Communications			
Road and Bridge Construction (capital)	Apr.3/90	14,423,100	14,423,100

Department	Date Approved	Authorized	Expended
Road and Bridge Construction (capital)	Sept.18/90	10,026,713	10,026,713
General Administration	Apr.24/90	946,000	—
Maintenance, Transportation Systems	Apr.24/90	4,169,700	4,169,700
Maintenance, Transportation Systems	Sept.18/90	4,936,867	4,936,867
		$158,578,250	$150,508,496

I am required under Section 9(1)(f) of the Auditor General Act to call attention in my Annual Report to every case in which *"a special warrant made pursuant to the provisions of the Provincial Finance Act authorized the payment of money"*. The Provincial Finance Act allows the Governor in Council to approve a Special Warrant, when the Legislature is not in session, which authorizes *"an expenditure which was not provided for by the Legislature"* and *"is urgently and immediately required for the public good"*.

On September 28, 1989, a Special Warrant was approved authorizing an expenditure of $30,500,000 for the Department of Lands and Forests for land acquisition. The land was considered to have an economic value to the Province in providing a base for expansion of the forest fibre industry in Nova Scotia.

* * * * * *

CROWN AGENCIES AND CORPORATIONS

Introduction

There are 19 crown agencies and corporations, excluding hospitals, whose annual audits are performed by chartered accountants other than the Auditor General. A schedule of these is included in Appendix IV.

Under Section 17 of the Auditor General Act we are furnished annually with the audited financial statements and all audit reports prepared by the auditors of these agencies and corporations. The Auditor General may conduct such additional examination and investigation of the records and operations of the agencies as he deems necessary.

Examinations or investigations which our Office performs under Section 17 have different objectives and hence a different scope of review than those undertaken by the private sector auditors. We do not attempt to duplicate their work regarding an audit opinion on the entity's annual financial statements. The focus of our review is on broader issues such as the management and organization of the enterprise, and the manner in which it is meeting its legislated or otherwise determined objectives. The results of these reviews are reported to the management and Boards of the corporations and agencies, and an abbreviated report is included each year in our Annual Report.

In 1985 a five year schedule was prepared to ensure at least one audit review by our Office in each of those crown agencies and corporations where we are not the appointed auditors. These reviews have been completed with the exception of Nova Scotia Resources Limited scheduled for the 1991 fiscal year. We have also completed reviews at additional entities which became operational after our 1985 schedule was prepared.

During the 1990 audit year, staff conducted reviews at: Nova Scotia Rehabilitation Centre Corporation, Upper Clements Family Theme Park Limited, Schooner Bluenose Foundation, and Tidal Power Corporation. The latter two have not been finalized for inclusion in this Report.

Articles on these assignments are included in this section, as well as an article on our review of the audit reports prepared by the financial statement auditors of all the crown agencies and corporations.

Review of Auditors' Reports

Section 17 of the Auditor General Act requires auditors of all crown agencies and corporations to provide this Office annually with copies of the audited financial statements and all reports prepared pertaining to these audits. We reviewed all financial statements and reports received, being principally interested in whether:

- there was any indication of inadequate financial controls and records mentioned in letters to management or indicated by reservations of audit opinion on the financial statements;
- there was timely preparation of annual financial statements, and the audits of them;

- there were notes to the financial statements outlining the legislative mandate of the entity; and
- there was disclosure of the entity's audited financial statements, preferably in the Public Accounts.

The following observations result from our examination of the financial statements and auditors' reports.

Financial Controls and Records – As in the prior year, the audits of the Art Gallery of Nova Scotia and the Schooner Bluenose Foundation contained reservations of audit opinion relating to donation receipts.

This is a standard type of reservation which may be found in the auditors' report for organizations receiving a significant portion of their revenues through cash donations. The completeness of such donations is not susceptible to conclusive audit verification. The resulting weakness cannot be overcome cost effectively.

Letters to management from the auditors of certain crown agencies indicated some weaknesses, none serious enough to include in this Report.

In my 1989 Annual Report it was noted that the auditors of the Workers' Compensation Board of Nova Scotia in their letter to management for the December 31, 1988 fiscal year indicated some concern over the actuarial assumptions used to value the Board's unfunded pension liability. The Consumer Price Indexing Reserve as at December 31, 1988 was determined to be inadequate to provide for the escalation of pension payments as a result of indexing by an amount of approximately $72,700,000. Another major reserve fund for pensions was considered by the actuaries as being adequate for future liabilities providing it receives annual contributions based on an 8% capitalization rate.

It is the responsibility of the Board, in accordance with the Workers' Compensation Act, to assess, levy and collect from employers, sufficient funds to meet all claims and expenses for the current and future years. The Board and the actuaries have now determined that both reserves set aside to meet actuarial future liabilities must receive annual contributions based on an 8% capitalization rate.

This increased contribution was commenced for the fiscal year ending December 31, 1989 for both major reserve funds – Pensions and Consumer Price Indexing. This resulted in the contribution in 1989 being $5 million greater than in 1988.

There was also a $15 million increase in costs for compensation and medical aid for 1989. This, plus the $5 million increased reserve contributions, have contributed to a net shortfall of $12 million for the year, since income from assessments and interest on investments were only $8 million greater than 1988.

Since the Workers' Compensation Board is a self-supporting fund, the options available to it are limited. Any accumulated deficit has to be eliminated in future years, either through increased assessments and investment income, reductions in expenditures, or some combination thereof. Moreover, the Board has the problem of the unfunded liability in the Consumer Price Indexing Reserve Fund.

The auditors of the Workers' Compensation Board of Nova Scotia have also noted some continuing weaknesses regarding the timeliness of bank reconciliations, use of prenumbered forms for assessments, and write-off of uncollectible accounts receivable.

Timeliness of Statement Presentation – The financial statements for all crown agencies and corporations were prepared and audited within six months of year-end, which we consider to be satisfactory.

Legislative Mandate – It is important for the reader of financial statements to have some awareness of the legislative mandate under which the entity operates. This is most conveniently communicated as a note to the financial statements but can be shown in other locations of an annual report. It is recommended that all crown corporations and agencies include such a note if they have not disclosed their legislative mandate elsewhere in their annual report.

Although there has been an improvement over the past few years, the financial statements of four entities do not have such a note. They are: Nova Scotia Rehabilitation Centre Corporation, Schooner Bluenose Foundation, Workers' Compensation Board of Nova Scotia, and Upper Clements Family Theme Park Limited.

Reporting – I have noted in previous Annual Reports that the Public Accounts of Nova Scotia should come as close as possible to presenting full disclosure of the financial position and operating results of all entities which are Government controlled.

The financial statements for the Art Gallery of Nova Scotia, Halifax Harbour Cleanup Incorporated and Upper Clements Family Theme Park Limited have not been included in the March 31, 1990 Public Accounts. We believe that these financial statements should be included in the Public Accounts in future years.

The financial statements of three entities, although not in the Public Accounts, are available to the public through wide distribution or tabling in the Legislature. These are the Council of Maritime Premiers, a joint operation with the other Maritime Provinces; the Halifax-Dartmouth Bridge Commission; and the Workers' Compensation Board of Nova Scotia.

Concluding Remarks

Improvements have been noted in the accounting and reporting of crown corporations and agencies over recent years. In order to maintain this trend, I reiterate my suggestion of prior years for legislation that would provide for accountability of crown corporations to the Legislative Assembly.

This legislation would help to achieve uniformity in disclosure and improve the understanding of authority and responsibility assigned to Board members of these corporations. The legislation should also define what constitutes an agency or corporation of the crown. At present there are several definitions for crown agencies and corporations. For example, the Provincial Finance Act and Auditor General Act contain somewhat different definitions. This situation has created some problems in determining the status of certain entities. Definitions in all legislation should be consistent.

Nova Scotia Board of Commissioners of Public Utilities

Summary

In the course of our annual audit of the Board, two items came to our attention which are commented upon in this article. These concern:

- the Board's level of expenses in relation to a reduction in its workload; and
- Board practices in the hiring of professionals.

Findings – Two significant findings are noted.

- The Board's workload has been substantially reduced since it no longer has jurisdiction over the regulation of telephone service in the Province.
- The Board has followed a practice of generally not requiring written agreements when engaging professionals to assist it for Board hearings.

Introduction

The Auditor General is the auditor of the Board of Commissioners of Public Utilities. In this capacity, an annual audit is performed to express an opinion on the financial statements of the Board. In the performance of the December 31, 1989 fiscal year-end audit, two matters were noted which warrant coverage in this Annual Report.

One relates to a significant reduction in the Board's workload due to a shift in the jurisdiction regarding the regulation of telephone service to the Canadian Radio-Television and Telecommunications Commission (CRTC). This has an impact on the Board's required level of expenses and its allocation of expenses to other public utilities.

The second item concerns the Board's practices in generally not requiring written agreements or engagement letters when obtaining the services of professionals such as lawyers, accountants and engineers to assist the Board in hearings and other matters.

Workload of the Board

Section 15 (1) of the Public Utilities Act requires the Board of Commissioners of Public Utilities to estimate its future expenses and assess them against the public utilities over which it has jurisdiction.

In 1989 a Supreme Court of Canada decision changed the regulatory jurisdiction of Maritime Telephone and Teiegraph Company Limited from the Board to the Canadian Radio-Television and Telecommunications Commission. This has resulted in a significant reduction in the workload of the Board.

However, to date there has not been any reduction in the Board's overall level of expenditures. Accordingly, a disproportionate share of the Board's expenses is being assumed by other utilities.

We have recommended to the Board that initiatives be considered to reduce the overall fixed cost of operation to compensate for the telephone jurisdiction shift. Expense allocations to utilities must reflect fair and reasonable cost structures.

In June 1990 the Executive Council established a Deputy Ministers' Committee to consider three elements of reorganization as they might apply to five regulatory boards, including the Board of Commissioners of Public Utilities. The three elements are: consolidation of some or all of the boards into a new board; sharing of administrative resources and premises by some or all of the boards; and deregulation.

In its consideration of possible reorganization options, the Committee has encountered a complex situation because of the different kinds of functions performed by the boards. Some are regulatory, others adjudicative; some areas are more easily combined than others. Nevertheless, the Committee expects to have recommendations for Executive Council soon.

Written Agreements – The Board engages lawyers, engineers, accountants and other professionals to act as expert witnesses and legal counsel concerning matters brought before the Board.

In the course of our audit it was noted that written agreements or engagement letters were not always prepared to document these hirings.

It is our contention that misunderstandings can develop regarding the type and extent of services to be performed when there is no written agreement or engagement letter. Without a formalized agreement which indicates the billing and fee structure, the Board is not in a position to exercise an appropriate degree of expenditure control.

Accordingly, we have recommended that all hirings of professionals be supported by written contracts or engagement letters which include relevant terms of the engagement. The Board has agreed that these arrangements will be formalized in future.

Nova Scotia Rehabilitation Centre Corporation

Summary

The Nova Scotia Rehabilitation Centre Corporation operates a self-contained in-patient and out-patient facility in Halifax with an outreach program for all Nova Scotia. The 52 bed facility has been expanded to 104 beds with the additional in-patient capacity available commencing in October 1990.

Objectives – The objectives of our review were:

- to obtain an understanding of the Corporation's objectives, policies and plans; and

– to assess key areas of operation including financial management, capital expenditure planning and control, control of fixed assets, purchasing/ materiel management, and workload productivity.

Observations and Conclusions – The following are the principal observations and conclusions resulting from our examination.

- There is a need for improved budgetary and financial reporting systems and practices for the guidance and control of financial and operating management, the capital expenditure process, and the management of fixed assets.

- We found no formalized strategic planning in the Corporation, either for patient services' programs or for facility needs.

- There is a need for formal policies and guidelines to enable the Corporation to provide direction and a greater degree of control over purchasing/ materiel management.

- Productivity measurement systems for staff utilization are mostly retrospective in nature and not used to achieve increased efficiency of operation.

- The Board of Directors and senior management need to become more involved in monitoring the financial and operating management of the Corporation.

- Improved costing systems are necessary for operation of the Orthotics and Prosthetics Division.

Introduction

The Nova Scotia Rehabilitation Centre Corporation operates a self-contained in-patient and out-patient facility in Halifax with an outreach program for all Nova Scotia. The Corporation operated with a budget of $10.7 million during the 1989-90 fiscal year with approximately 80% of revenue as per diem rates from the Province, 15% from the sale of orthotics and prosthetics, and 5% from other sources.

The 1990-91 budget shows expected expenditures totalling $11.3 million of which 76% represents compensation to staff and 24% is for various operational expenses. The capital budget aggregates $288,700.

The 52 bed facility has been expanded recently to accommodate 104 beds with the additional in-patient capacity available commencing in October 1990. The estimated construction cost for the expanded facility has been reported in the notes to the Corporation's financial statements for the fiscal year ended March 31, 1990 as $8.1 million.

In 1990 we completed a review of the Corporation's operations in the following areas:

Financial Management
Capital Expenditure Planning and Control
Control of Fixed Assets
Purchasing/Materiel Management
Workload Productivity
Other Matters

This was our Office's first review of the Centre since its incorporation in 1978. It was conducted under authority of Section 17(2) of the Auditor General Act.

Financial Management

The objective of this segment of our audit was to assess the financial management systems, including: the budget process and financial reporting; the relationship of the Corporation with the Department of Health and Fitness; planning – both strategic and operational; organizational structure including accountability relationships; and to familiarize ourselves with the financial position and operating results of the Corporation.

We concluded that the financial management process is reasonably well designed, but there is need for improvement in various areas.

Policies and Procedures – While there is an employee handbook that is well presented and informative on personnel policies and general information, certain administrative and financial matters are not dealt with adequately.

- By-laws, manuals and job descriptions exist, but are not current.
- There are no written policies for budget preparation and financial reporting.
- While the Corporation is currently reviewing and updating various manuals and job descriptions, there is no policy on the frequency of review and updating.

Budget Process – There are four actions that should be taken to improve the budgetary process.

- An annual call letter should be issued to department heads detailing input from the Board and senior management concerning guidelines, priorities, and assumptions.
- Although the budget submission to the Department of Health and Fitness was completed by the date required, there should be an established schedule for budget preparation.
- There should be increased involvement and challenge, particularly at the senior management level.
- There should be review and renegotiation with department heads after approval of global funding by the Department of Health and Fitness.

Financial Reporting – The Board of Directors receives monthly a summary statement of operations that could be supplemented for greater understanding and monitoring of operations.

- Written explanations of major monthly variances of actual versus budget should be included.
- A balance sheet, now periodically included, should be a regular monthly item.
- The Board should periodically select and discuss detailed departmental financial and operating reports on a cyclical coverage basis.
- Statistical information on facility costs, to oversee the operation of an eight floor building complex, should be regularly maintained and reported.
- Major expenditures, particularly those not included in the original budget submission, should be submitted to the Board for approval.

Long-Range Strategic Planning – We found no formalized strategic planning in the Corporation, either for patient services' programs or for facility needs.

There was a needs analysis prepared prior to construction of the facility expansion, but it appeared to be more of a historical justification rather than strategic planning and it related solely to the expansion of in-patient capacity. It did not address requirements for relocation of the cafeteria, an expanded orthotics/prosthetics manufacturing area, and improved accommodation for certain support functions.

Capital Expenditure Planning and Control

The objectives of this segment of our audit were to assess the capital expenditure planning and control system and to determine how the Corporation's actual expenditures on capital relate to the amount funded by the Province.

As part of our review we examined the administrative processes and financial controls regarding capital expenditures. The following suggested areas of improvement were noted.

Policies and Procedures – There are no formal guidelines or instructions communicated to the staff relative to the preparation of capital budget requests.

Capital Budget – The Corporation relies mainly on the capital funding and approval process of the Department of Health and Fitness. This process includes the consideration of total capital expenditures planned for the year, with individual approval of items costing in excess of $50,000. In our view, the following deficiencies in the process should be addressed.

- There should be increased review and challenge of department head capital budget requests, and some basis of priority for discussion and approval at the Board level.

- Capital budget funding approval by the Department of Health and Fitness should be followed by the establishment of revised budgets for each department.

- The Corporation should refrain from purchasing office furniture and equipment for the specific use of physicians, which is not in accordance with the physicians' agreement.

Financial Reporting – We have suggested monitoring by senior management and the Board could best be instituted once departmental budgets were adjusted to reflect approved global funding. Actual results should be compared to these adjusted budgets.

We have also suggested that consideration be given to recording operating costs for services provided free of charge, principally by the Department of Government Services.

Maintenance – The Corporation has initiated an effective capital asset preventive maintenance program. It is based upon a computer software program provided by the Department of Government Services.

Control of Fixed Assets

The objective of this segment of our audit was to assess the policies and procedures relating to the control and use of fixed assets.

Physical and Accounting Controls – The Corporation's system for physical and accounting controls over fixed assets are deficient in several respects.

- We suggested the implementation of a centralized fixed asset management system, to include as a minimum a listing/subledger of the major fixed asset items indicating description, location, cost (or an estimate) and life expectancy.

- Periodic counting and verification was also suggested as an integral part of a fixed asset management control system. In such a system special procedures should apply to equipment susceptible to theft or misuse.

Purchasing/Materiel Management

The objective of this segment of our audit was to assess the policies and procedures for the acquisition of goods and services.

The more significant observations arising from our review of this area are described below.

- The Corporation has one formally trained purchasing agent, and is working towards centralizing the purchasing functions presently performed by individual department heads.

- The monthly reporting of the purchasing function to department heads is appropriate. However, we have suggested that additional information such as ageing of inventory and turnover statistics should be included in information for the Executive Director and the Board.

- There are no formal policies or guidelines relative to tendering/quotations, purchasing limits, specifications, standardization, supplier selection, and control of inventory. The By-laws provide a conflict of interest guideline for members of the Board of Directors, but there is none for staff.

- The Corporation should have a purchasing manual to codify policies and procedures relating to purchasing. This would enable the Corporation to both provide direction and exercise control in this area.

- In the Orthotics and Prosthetics Division there is a high incidence of slow moving and obsolete inventory.

Workload Productivity

The objectives of this segment of our audit were to determine:

- peak and low periods of activity and evaluate the use of various techniques for balancing and shifting workload;
- whether management has the information to know when to use permanent, term, casual, or overtime resources and in fact applies this information to its staff scheduling; and
- the Corporation's practices to monitor sick leave and other forms of absenteeism.

The hospital has traditionally had a lengthy waiting list, and the doubling of in-patient capacity would have been expected to reduce this list substantially. We have been informed by senior management, however, that program changes and additions, as yet not finalized, will increase demands on the hospital's services.

The hospital maintains a high level of in-patient activity. Bed utilization is consistently higher than 90%, and the length of stay ranges between 40 and 60 days. With the increased bed capacity it will be incumbent on the Corporation to maximize utilization of its facilities and to control costs of operation as effectively as possible. The following paragraphs discuss a significant aspect of sound hospital management.

Workload Productivity Information – Most hospitals use some type of workload measurement system to aid in the allocation of staff. The Corporation has adopted a quantitative system designed to allocate staff daily based on the acuity of patient care.

However, the system is used principally in an after-the-fact manner, and we have the following observations concerning it.

- Although some information on efficiency of operations is provided retrospectively, the system is not being used to achieve increased efficiency.

- There is limited planning of peaks and lows in workload activity.

- The Corporation infrequently uses casual employment as a means of balancing staff requirements with patient workloads, an approach used by most health care institutions.

- Workload productivity information is seldom discussed at senior management and Board levels.

Sick Leave and Other Absenteeism – There are policies and procedures in place to monitor sick leave and other absenteeism. We have suggested some improvements in the information for these items, and the need for more timely preparation of it.

Other Matters

Two other areas were included in the conduct of this audit assignment. They are dealt with separately in this section.

Functioning of the Board
Orthotics and Prosthetics Division

Functioning of the Board

It is normal practice in conducting our reviews under Section 17 to assess the functioning of the Board of Directors in selected areas. We particularly note their involvement in the financial management of the Corporation or agency. We do this because financial management cannot be considered solely the responsibility of management, but an integral part of the responsibilities of the Board as well. Accordingly, in this review our objective was to assess the functioning of the Board, including its committee structure and its providing of policy and direction.

Committee Structure – The By-laws of the Corporation specify four standing committees - Executive, Finance, Joint Conference, and Medical Advisory, plus such other committees as the Board deems advisable.

- At present there are no committees with responsibilities for two functions of significant importance. One is the long-range planning function. The other is the patient services' program function, although it could be interpreted as a responsibility of the Joint Conference Committee.

- A listing of committees dated January 1987 includes a Building Committee with Board representation but it is no longer active. We have suggested that a committee should be established with responsibility for the entire physical facility. Such a committee would assume responsibilities from a number of staff committees dealing with safety, disaster, equipment, and building maintenance and renovations. Board representation would be advisable on this new facilities committee.

- We are suggesting the Corporation may wish to examine its By-laws and revise the committee structure at both the Board and management level.

Policies and Procedures – The Board does not appear to be suitably involved in monitoring the financial management and other areas of operation.

The following are key areas where the Board could focus its attention.

- There are presently no policy guidelines on reporting to the Board. Minimum reporting should include written variance explanations between actual and budgets, projections to year-end, appropriate statistics on operations, and a balance sheet.

- There are presently no policies on the implementation, expansion, or elimination of patient services' programs.

- There are procedures for determining nursing and physiotherapy needs, but no Board policies.

- There are no Board policies for staffing generally, including the use of casual or part-time staff.

- There are no Board policies relative to the operation of the Orthotics and Prosthetics Division, a significant manufacturing facility at the hospital.

Orthotics and Prosthetics Division

The Orthotics and Prosthetics Division is an on-site manufacturing facility, that manufactures, assembles, adapts and sells physical support items. The prices charged incorporate components for both labour and materials, and they are decided upon annually through discussions with the Department of Health and Fitness.

- There is no job order system which generates cost information necessary to monitor the major activities of this division, i.e. production of shoes, orthotics and prosthetics.

- Revenues and costs are not separately recorded and reported for each of these three activities.

- Information is not available for management to determine profitability of operations, or to make informed pricing decisions.

Concluding Remarks

Senior management of the Corporation has been re-organized during the past 18 months and an Executive Management Committee established. This Committee consists of the Executive Director and six senior functional area directors, each having responsibility for several departments of operation. Although it was too soon to evaluate this new Committee, we support the goal of providing more distinct functional areas for improved co-ordination.

The Corporation has recently doubled its in-patient bed capacity from 52 to 104 beds, making it particularly important to develop strategic plans and improve its financial and operating policies and practices.

There is a need for the Board of Directors to become more involved in monitoring the financial and operating management of the Corporation, and this will require improved information reporting practices.

Upper Clements Family Theme Park Limited

Summary

We conducted a review of four aspects of the Theme Park's operations. These were Planning for the Theme Park; Development and Construction; Functioning of the Board; and Management of the Operation.

Objectives – Our objectives were:

- to determine and evaluate the extent of cost/benefit analysis and project management exercised during planning, construction and development;
- to evaluate the functioning of the Board of Directors; and
- to evaluate certain financial and operating practices.

Findings and Conclusions – The more significant ones resulting from our review are as follows.

- Several in-depth studies were conducted in the period 1985 to 1988 concerning theme approach and required investment.
- A more formalized project management system for development and construction should have been used.
- Operating policies and procedures, including reporting practices, were found to be generally satisfactory.
- The Theme Park faces continuing operating deficits unless attendance can be significantly increased.

Introduction

The Auditor General is not the appointed auditor for Upper Clements Family Theme Park Limited. However, under Section 17 (2) of the Auditor General Act, our Office has the right to conduct examinations of crown corporations such as the Theme Park. Such a review was performed in 1990.

The objectives of the review were to determine and evaluate the extent of cost/benefit analysis and project management exercised during planning, construction and development; evaluate the functioning of the Board of Directors and the Theme Park's future plans; and evaluate the financial and operating practices.

The major parcel of land on which the Theme Park is constructed is a 750 acre property purchased by the Province for development purposes in September 1972. The property remained undeveloped up to the time of establishing the Theme Park in the late 1980's.

The Theme Park was incorporated in January 1988 and commenced operation on June 23, 1989. The financial involvement of the Province of Nova Scotia as at December 31, 1990 totalled $20 million. These funds were used to defray the capital cost of construction at $18 million, including start up costs, and an operating grant of $2 million to offset the loss for the year ended March 31, 1990.

The balance of this article is presented under the following headings:

Planning for the Theme Park
Development and Construction
Functioning of the Board
Management of the Operation

Planning for the Theme Park

To our knowledge, no studies were undertaken to examine the costs and benefits of locating the Theme Park at other than Upper Clements. All studies from 1985 to 1988 were related solely to developing a park that would provide economic activity in the region.

We reviewed four consulting studies conducted during the planning for the Theme Park. Two studies were conducted by consulting groups headquartered in the Province of Nova Scotia and two studies were conducted by firms outside the Province.

The following were observations arising from review of these reports.

1985 Study – The 1985 study conducted by a Nova Scotia firm proposed a park oriented to an historic village model at much reduced cost compared to the final park project.

- The proposed capital costs totalled approximately $3 million with the one major participatory activity being a water slide. A lake was also to provide boating.

- The orientation to an historic village concept was to be supported by a first class restaurant atmosphere, providing an historic feast type menu and the "Order of the Good Time".

- One major impediment brought out by this study was a lack of accommodation in the Annapolis Royal vicinity. It was suggested that 200 new

rooms were required, including 100 hotel rooms. In the same context it was noted that Annapolis Royal was incapable of handling accommodation for a bus tour.

- There was no further mention of this 1985 study when reviewing subsequent consulting reports.

1988 Studies – The next studies, conducted in 1988, were preparatory to deciding on the final theme approach and total investment. The studies also forecasted expected attendance and operating results based on that investment. The following major points are presented from those studies. In some cases there is comparison to actual results.

- The total cost was projected to be $12.8 million plus other development costs, which were later estimated at $2 million. The actual total cost has been approximately $18 million.

- The attendance was projected to be 215,000 in 1989, the first operating year, and increasing to 255,000 by 1993. The actual attendance has been 180,000 in 1989 and 91,000 in 1990.

- The operating profit available for debt service and re-investment in fixed assets was projected to be $1 million in 1989 and increasing to $1.5 million by 1993. The following are summarized results for the completed fiscal year ended March 31, 1990.

Net sales	$2,929,389
Administration and operating expenses	3,734,630
Loss before depreciation, amortization and interest	(805,241)
Interest on long term debt	1,011,419
Net cash loss	(1,816,660)
Depreciation and amortization	1,145,396
Net loss	($2,962,056)

Unaudited figures for the period April 1 to October 31, 1990, which includes the Theme Park's second operating period, showed a loss in excess of $600,000 before depreciation, amortization and interest charges.

- Attendance projections prepared by consultants were based on an operating period each summer of about 110 days, but a more realistic operating season is less than 100 days.

- The consultants reported that tourists are looking for participatory activities and the drawing power of a theme park is directly related to the scope of entertainment provided. They also noted that it would be absolutely necessary to promote heavily in the Halifax metropolitan area particularly for the school and group sales business. They emphasized that tour bus visitors to Fort Anne has been at 25% of total admissions and Port Royal at 43%.

The Corporation and the Government conducted significant research during the planning phase of the Theme Park. They selected a larger and more expensive facility than suggested in the 1985 study. Studies recommending participatory activities provided support for this choice. However we feel there was insufficient cost/benefit analysis for an undertaking of this size. There was also no documented consideration of the Upper Clements area versus other areas of the Province, although we acknowledge that provincially owned land was available in this area.

Development and Construction

We reviewed the minutes of the Board of Directors to assess the degree of project management exercised during the development and construction phase, there being little other documentary evidence available for the period January 1988 to June 1989.

The Board of Directors, which was chaired at the time by the Deputy Minister of Tourism and Culture, had three other Deputy Ministers as members – Management Board, Government Services and Lands and Forests. The Board played an active role in decision making and monitoring. Meetings were conducted weekly at which time presentations and proposals were made for discussion and approval.

On more than one occasion a member of the Board recommended project management and critical path systems be adopted but this never came about. The complete emphasis was project completion within a tight time frame. The Board gave individual approval for each major expenditure.

Our conclusion on development and construction is that the absence of a formalized project management system has to be considered a serious weakness. As a minimum, to commence a project of this magnitude there should be a well-defined operational plan which incorporates priorities, time, cost, resources and performance results. It should define specific objectives and criteria that establish results, a detailed time schedule, and resource requirements and availability.

Functioning of the Board

The original Board of Directors was appointed in January 1988. This Board served continuously during the development and construction phase, meeting approximately weekly to consider action in areas of development, construction, staffing and finance.

The Board also served throughout the first operating period of the Corporation in 1989. Effective April 1990, the deputy minister representation from the Province ceased, and the previous Vice Chairman became Chairman. Except for two, all present members of the Board reside in the area of the Theme Park.

The Board actively monitored the development and construction of the Theme Park. It has continued as an active participant with management in the operation of the Theme Park.

The staffing actions for key managerial positions were conducted by a joint committee of the Board and senior management. This was following advertisements,

in most cases, both within and outside the immediate geographic area of the Theme Park. Most positions at the Theme Park are casual positions. Those at the more junior level were selected by management.

There were three major areas of financial and operational management for the park, which should have received a greater degree of attention, whether by the Board, management, government or some combination of these groups. These areas were:

- insistance on use of an acceptable project management system during development and construction;
- earlier consideration of an operating budget, which was not presented until three months prior to the park becoming operational; and
- a more challenging approach to the optimistic attendance projections being presented by consultants.

Management of the Operation

The operating season for the Theme Park is a short period requiring adequate advance planning, policies and procedures, and reporting mechanisms, since little time is available during the operating season to make changes.

- We found management had appropriate operating policies and procedures in place, and steps are being taken to incorporate them into a single operations manual.
- There were reporting systems to provide financial and operating information to management and the Board of Directors on the periodic status of the Theme Park relative to financial and attendance expectations.
- The auditors for the Theme Park provided an unqualified opinion on the financial statements for the two fiscal years ended March 31, 1989 and 1990. While several weaknesses in revenue and expenditure controls were pointed out by the auditors, there were indications that the Corporation had taken corrective action. We did not conduct an internal control study but we observed nothing that would lead us to believe that there were any continuing significant weaknesses in internal controls.
- For the year ended March 31, 1990, wages and benefits totalled $1.8 million or 30% of total expenses. This is one of the few expenses available for management to adjust in meeting the problem of falling revenues. In 1990, with attendance of less than half the management forecast for the season, there was an apparent need for staffing adjustments.

  There are, however, limitations in the ability to cut wages and benefits for this type of operation because of minimum staff requirements for restaurants, security, maintenance, and general service to the public. Nevertheless, management took decisive action, particularly in 1990, to reduce the numbers of casual and permanent employees and thus reduce costs.

- There has been, until recently, insufficient long-term or strategic planning conducted by the Corporation. The Theme Park did develop a mission statement in May 1990 and held a two-day planning strategy session in September 1990. The former general manager requested the Board, in the spring of 1989, to consider a strategy session covering at least a three-year period, but this never took place.

- The Marketing Division of the Department of Tourism and Culture conducted an impact study, completed in November 1989. Businesses in the campground, restaurant, retail, attractions, and services areas were asked to respond to questions concerning the impact of the Theme Park on their businesses. These businesses, totalling approximately 135 in four locations (Annapolis Royal, Bridgetown, Digby and Middleton) responded that there had been generally a positive impact. We did not attempt any analysis of this impact study, and it is possible that results in 1990 would be less positive, but the study suggests there is some support to the economy in the surrounding communities.

- In mid-December 1990, the Department of Tourism and Culture convened a focus group with representation from the media, corporate sponsors, marketing personnel, and a member of the Board of Directors. The purpose of the meeting was to consider current public attitudes and ways to improve marketing for the 1991 operating season. This initiative was undertaken to address the most serious problem being faced by the Theme Park, a level of attendance far below what has been anticipated and required to meet operating costs.

Concluding Remarks

In addition to the capital contributions by the Province to the Theme Park, the Province has also contributed towards operating deficits. Initial projections suggested the Theme Park would at least break-even over time. However government has had to make substantial contributions to cover deficits, and it would seem that these will likely be necessary in the immediate future, if the Theme Park is to be sustained at its current level of operations.

It has to be acknowledged that a theme park is a relatively unique venture, in fact the consultants had difficulty in finding comparative attractions from which to project their attendance forecasts. The unanticipated drop in attendance in 1990, which was 50 percent of the previous year, has posed real challenges for management and Board of the Park in its planning for 1991 and beyond.

Victoria General Hospital

Summary

Background – The Victoria General Hospital is a crown corporation subject to the provisions of the Victoria General Hospital Act. The 800 bed hospital is the major tertiary care, teaching, and referral centre in the Maritime provinces. The Victoria General Hospital Foundation is a non-profit charitable organization. Its objectives are to assist the Hospital with the funding of patient care, teaching and research activities.

During 1989, we completed a review of three operational areas of the Hospital, namely: financial management, materiel support services and industrial engineering. This broad scope audit was performed in addition to our annual financial statement attest and compliance audit. During the year, we also completed a review of the operations of the Victoria General Hospital Foundation.

Objectives – In late 1990 we conducted a follow-up review to ascertain the status of the recommendations made in our 1989 audit reports to both the Hospital and the Foundation.

Findings and Conclusions – The following summarizes the more significant ones from our follow-up reviews.

Victoria General Hospital

- Improvements in the budgeting process include preparation of a budget manual, priority setting for new or expanded programs and a more rigorous challenge process. Deficiencies in the management information system inhibit the effectiveness of review and control programs.
- The types of internal financial reports and their contents have been revised.
- New and expanded programs are no longer implemented until requisite funding is available.
- The Department of Industrial Engineering has been restructured to provide a more effective resource for the Hospital.

Victoria General Hospital Foundation

- The Foundation has prepared its first Annual Report, and commenced documenting key policies and procedures, including implementation of an investment policy.
- Formal agreements are now in place between the Hospital and the Foundation for financial arrangements on recent equipment acquisitions.

- The Foundation, the Hospital, and Path Scientific Research Limited have terminated their agreement, and in a new agreement all funds owed to the Foundation are to be repaid by March 31, 1992.

Introduction

In 1989 we conducted an extensive review of three areas of the Victoria General Hospital's administration – Financial Management, Materiel Support Services, and Industrial Engineering. We also reviewed certain administrative practices at the Victoria General Hospital Foundation and the status of Path Scientific Research Limited Partnerships. The results of these reviews, which included our recommendations, were described at length in my 1989 Annual Report.

In late 1990 we conducted a follow-up review to ascertain the status of the recommendations made in our 1989 audit. This article summarizes the action taken by management and the Board of the Hospital and the Foundation under the following captions:

Financial Management
Materiel Support Services
Industrial Engineering
Victoria General Hospital Foundation
Path Scientific Research Limited Partnerships

Financial Management

We reported in 1989 that the financial management process at the Hospital had been seriously deficient during the past five years, particularly in light of the size and complexity of the Hospital and the advances in financial management achieved by other hospitals. Because the deficit had been funded by the Province there was little motivation for the Hospital to take the issue of financial management seriously.

The Hospital's response to our observations and recommendations is described under four classifications: Budgeting; Financial Reporting; New or Expanded Programs; and Capital Equipment, Renovations, and Maintenance.

Budgeting

- There had been a lack of formalized policies and procedures for budget preparation. The Hospital has since prepared a budget manual which has been in use for the past year.

- Cost centre managers are now deeply involved in the budget-setting process, whereas in the past they had minimal input.

- Each division now goes through a rigorous challenge process during which every item is questioned and discussed. In addition, the Management Committee challenges divisional budgets prior to their review by the Finance Committee and the Board of Commissioners. Previously there had been very little challenge.

- The Management Committee did not establish any priorities before commencing budget preparation in the past. They now rank new or expanded programs and review operating budgets to set priorities.

- In prior years, the budget approved by the Department of Health and Fitness was not allocated to cost centres on a timely and realistic basis. This year the approved budget was reviewed by the Management Committee and allocated to cost centres on a meaningful basis.

- Other positive actions relating to the budget process include improved information flow and training within the Hospital, priority setting, and better communication with the Department of Health and Fitness.

There are several areas where further improvements are intended or required beyond what has been accomplished to date.

- Deficiencies in the existing management information system impact on the Hospital's ability to generate all the information and reports that are necessary for an adequate accountability process. The new information system presently being implemented should address this problem.

- Additional professional staff is required in the Finance Division. However, this Division's complement is presently filled, but not with the proper level of qualifications.

- Although the Board of Commissioners has initiated a process for appealing the approved budget, it has not assumed responsibility for having the Hospital operate within the budget approved by the Department of Health and Fitness. For the year ended March 31, 1990, the deficit was $6 million more than the amount approved by the Department.

Financial Reporting

- Monthly financial reports had been too detailed to meet the needs of senior division managers. Detailed reports are now prepared for cost centre managers and summary level reports for senior division managers. A different level of summary report is prepared for the Board, the Chief Executive Officer, and the Management Committee.

- Previously, formal narrative variance analyses to highlight significant differences between planned and actual results were not prepared for management and the Board. Appropriate narrative explanations are now being provided.

New or Expanded Programs

- The guidelines or instructions for the preparation of new or expanded program submissions had not been adequate. During the past year the process was revised and documented in the budget manual. Budget managers have found the new guidelines to be of value in the preparation of submissions.

- Previously, program priorities were not established by the Hospital to advise the Department of Health and Fitness which programs were more essential than others. For 1990-91, the Management Committee developed criteria for ranking all new or expanded programs.

- There had been an inconsistently applied challenge process within the Hospital for new or expanded programs. The Board of Commissioners has now initiated a process to ensure that all proposals are adequately reviewed and challenged by the Management Committee prior to submission to the Board.

- Contrary to previous practice, no new programs will be implemented unless requisite funding is available.

- No post-implementation process was previously in effect to evaluate the results of new or expanded programs. Guidelines have now been developed which require that all proposals contain specific measureable objectives and that relevant outcome measures and result indicators are identified.

Capital Equipment, Renovations, and Maintenance

- There had been no system for post-acquisition reviews of capital equipment purchases over $50,000, to ensure that results specified in the proposal for the equipment purchase were achieved. A system has been introduced which requires that post-acquisition reviews be conducted every two years.

- Previously, long-range strategic plans of the Hospital did not address capital renovation requirements. A ten-year list of major capital renovation projects has now been prepared and prioritized.

- Other improvements relating to capital equipment acquisitions, renovations, and maintenance include: longer-term forecasting and planning; enhanced information both provided to and prepared by the Hospital's Plant Engineering Division; and more regular liaison between the Hospital and the Departments of Health and Fitness, and Government Services.

Improvements in several areas are yet to be completed, although in many cases the Hospital has commenced corrective action.

- A formal strategic plan has not yet been developed to address long-term capital equipment and renovation implications. However, the Hospital

has established a Strategic Planning Committee to set clinical priorities, which is the first step for prioritizing all resources.

- A study has not yet been conducted to determine the Hospital's ability to replace equipment, considering existing levels of service and funding. Certain of the data relating to this matter will not be available until the new financial information system is operational. In the interim, departments are required to know the location, age, and other pertinent data relating to their capital assets.

- The cost of maintenance and renovation projects are not yet allocated to the cost centre requesting the work. The Hospital plans to do this when the new financial information system is implemented.

Materiel Support Services

At the time of our 1989 review, we expressed general satisfaction with the management of the materiel support services function. However, we noted that inventory management systems were deficient, a matter reported upon by this Office prior to 1989 as well. The new financial information system has a materiel management component which should satisfactorily address this problem.

The Hospital has taken the following actions in response to our 1989 audit observations and recommendations.

- User departments are now being informed of the reasons for order-filling delays, and a feedback system from departments has been introduced. The frequency of stock-outs has reduced substantially.

- Pharmacy purchasing policies and procedures have now been documented in a manual.

- Discussions have been held with the Nova Scotia Government Purchasing Agency which resulted in the Hospital's Department of Pharmaceutical Services assuming greater responsibilities.

Industrial Engineering

In our 1989 report we recommended that there should be a greater emphasis on industrial engineering even if that necessitated an increase in the resources devoted to the function. We noted that 50% of staff time was spent on work which could not be considered traditional industrial engineering. We also found that there was not a clear understanding among Hospital managers as to what Industrial Engineering could and should be contributing to the Hospital.

In response to our recommendations, the Hospital has undertaken the following actions.

- The Department of Industrial Engineering has been restructured to emphasize skill specialization. The computer system role has been trans-

ferred to the Management Information Systems Department. Quality assurance programs for Industrial Engineering have been introduced.

- Every effort has been made to increase the amount of corporate resources devoted to Industrial Engineering. One industrial engineer has been added to staff. A request for two more has been deferred until alternate funding can be obtained.

- There had been no annual or multi-year plan by Industrial Engineering to complement the Hospital's overall strategic plan. Annual and multi-year plans have now been developed to the extent possible. However, since Industrial Engineering is a service department, much of its work is in response to requests from user departments.

- Throughout the summer and fall of 1989, in-service orientation sessions were provided to Hospital managers on the role and function of Industrial Engineering, and further sessions are planned for 1991.

Victoria General Hospital Foundation

The Foundation is involved in many fund-raising ventures other than the solicitation of donations, including: operation of the Hospital parking lots; investment of Foundation funds in partnership ventures; and financing of certain major equipment purchases for the Hospital. Our 1989 review revealed instances where complete and formal agreements with parties external to the Foundation were lacking. We also found that the results of services and partnerships were not being monitored on a regular basis to ensure that the Foundation was receiving the revenues to which it was entitled.

We concluded that there was a need for a clearer definition of the role and responsibilities of the Hospital and the Foundation in the activities in which they are both involved, and that agreements between the two organizations should be formalized.

The Foundation has taken the following actions in response to our findings and recommendations.

Administration and Financial Management

- The Foundation prepared an Annual Report for the year ended March 31, 1990. This is the Foundation's first Annual Report.

- The Foundation has commenced documenting key policies and procedures in a manual, including a manual on parking lot operations.

- An investment policy has been implemented which addresses the size of bank balances, interest rates, and expected return on investments.

- A strategic plan has been prepared, and will be presented to the Board for approval in early 1991.

- The financial statements of the Foundation are still under review to determine the best format, and the degree of detail that should be included.

- Improvements have been introduced in the Foundation's internal financial reporting which includes analyses of variances between actual and budget, and projections of actual results to year-end.

- There had been no post-utilization reviews of equipment or research funding to ensure that anticipated benefits have been received. This is now being done by the Hospital's Capital Equipment and Clinical Department Heads Committees.

Major Equipment Purchases and Other Services

- Policies are now in place which require written agreements for financing major equipment acquisitions before they are purchased.

- Agreements are now in place covering the financial arrangements between the Foundation and the Hospital for the lithotripter, and between the Department of Health and Fitness and the Foundation for the Magnetic Resonance Imager.

- An agreement between the Foundation and the Hospital for management of the parking lot operation has been finalized. Agreements between the Foundation and suppliers of other services to the Hospital are being reviewed prior to their expiry dates.

Path Scientific Research Limited Partnerships

- There were no established policies regarding the involvement of the Foundation in partnership ventures. Policies are now in place, including the requirement for a review by legal counsel of all joint venture agreements before they are executed.

- There was a concern that the Foundation and the Hospital were in partnership with Path Scientific which was a profit-oriented company. The Hospital, the Foundation, and Path Scientific have since terminated their agreement. The Foundation and Path Scientific have entered into a new agreement for all funds owed to the Foundation to be repaid by March 31, 1992.

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TRANSFER PAYMENT REVIEWS

Introduction

The House of Assembly in its 1988 sitting gave the Auditor General the mandate to audit accounts of any person or institution receiving financial assistance from the government or an agency of government. The most important aspect of our transfer payment audit activity is to provide a commentary to the Legislature on the adequacy of the accountability process in place for the expenditure of these funds.

Our audits include, but will not necessarily be confined to, four areas of government expenditure.

- Education – payments to school boards, universities, and other post-secondary institutions.
- Health – payments to hospitals and other health care institutions.
- Municipalities – general assistance to municipalities, and financial assistance for specific projects.
- Community (social) Services – payments to various institutions in this field, and other payments.

Our objectives are to determine whether the financial assistance from the government has been applied to the specific purposes intended, and whether its application has been carried out in a prudent manner with due regard for economy and efficiency. Our audits will comprise three distinct phases:

- an overview to determine the administrative and control structures in place at the institution and at the related government department;
- a review of the specific operating systems and controls at the institution; and
- a detailed review of selected areas of administration particularly those which impact significantly on financial results.

During the current audit year we completed transfer payment audits at four school boards and seven universities, and this section of the Annual Report has an article on the audit of each of these two groups. In addition, we performed audits at two hospitals. One of these was at the Nova Scotia Rehabilitation Centre Corporation, and is reported upon in the section Crown Agencies and Corporations, page xx. The other, at Dartmouth General Hospital has not been finalized in time for this year's Annual Report. The audit of a third hospital was postponed due to scheduling difficulties.

School Boards

Summary

During the period from October 1989 to October 1990, we completed reviews of the operations of four district school boards in the Province, namely: Kings County District School Board; Antigonish District School Board; Colchester-East Hants District School Board; and Cape Breton District School Board. We also performed a preliminary survey of the Department of Education's monitoring and control of grants to school boards, as well as the Department's process for prioritizing school construction and renovation requests received from school boards.

Objectives – Five areas were selected for review during our visits to the four school boards.

- *Financial management process* – The objectives were to review the financial position and operating results, and to assess the financial management process and the planning function. The audit criteria included an adequate level of management and board involvement; adequate financial planning, budgeting and costing practices; and adequate financial accounting, reporting and monitoring practices.

- *Capital expenditures* – The objective was to review and make a general assessment of the capital expenditure planning and control system of the board. There should be clearly defined and communicated statements of policies and responsibilities, adequate internal controls and procedures, and reporting requirements which are clearly defined and complied with.

- *Fixed assets* – The objective was to review and make a general assessment of the policies and procedures relating to the control of fixed assets. There should be adequate policies, inventory controls, and security procedures relating to these assets.

- *Purchasing* – The objectives were to determine whether policies and procedures provide for the economic and efficient acquisition of materiel, and whether control of the function is adequate. The audit criteria included appropriate policies and responsibilities, as well as adequate information systems.

- *Policies and procedures* – The objectives were to determine whether the board has established reasonable policies and procedures, and monitors certain statistics in areas which impact upon major expenditures of board funds or place the board at risk. These areas include teacher hiring and termination; school closures; space utilization; pupil/teacher ratios; and class sizes. Audit criteria used included adequate information systems and policies.

Findings and Conclusions – The following is a summary of our findings and conclusions.

- The Department of Education's accountability system for transfer payments has several major deficiencies, including a lack of measurable goals and outcome measures for school boards and infrequent monitoring of financial and other aspects of board operations and results.

- All four school boards reviewed by our Office had adequate financial management systems, although a number of improvements were suggested for each school board. There was a satisfactory level of competence displayed at all four school boards by those with senior financial management responsibilities.

- All four school boards had some form of operational planning and long-range strategic planning. However, the planning of all four boards was not as comprehensive as we would have expected. Deficiencies in long-range planning were due in part to a lack of information from the Province regarding future initiatives in the facilities, curriculum, and funding areas. There should also be a Provincial long-range plan for school construction which would consider both needs and affordability.

- The Department of Education has not issued class size or pupil/teacher ratio guidelines to school boards. Because teachers' salary costs are the largest single expenditure of boards, and class sizes are the primary determinant for the number of teachers and therefore salary costs, we believe that the Department of Education should be taking a leadership role in this area.

Introduction

There are about 165,000 students, taught by approximately 10,600 teachers, attending the 519 schools throughout the Province. There are 21 school boards with enrolments ranging from 2,100 to more than 29,000 students.

The Province provides approximately 81% of the total revenue for school boards in the Province. The municipalities, through Education Tax and supplementary funding, provide about 16% while board-generated revenues account for the remaining 3%.

Teachers' salaries account for 64% of board operating expenditures, while total salaries and employee benefits account for 85% of board operating expenditures.

Approximately 84% of the grants received from the Province and the municipalities by school boards are "global" (i.e. can be used for any purpose). The remainder are classified as "non-global" and can be used only for specific purposes.

During the 1989 fiscal year, the Province made grants totalling $567 million to the 21 district school boards in the Province, comprised of $519 million for

operating formula grants, $38 million for capital debt retirement, and $10 million for capital equipment purchases, repairs and renovations.

Our reports resulting from each of the four audits were submitted to the Department of Education after they were formally presented to the applicable school board. We also prepared a report for the Department of Education summarizing the general findings and observations resulting from our review, our preliminary survey of the Department of Education's monitoring and control of grants to school boards, and our review of the school construction approval process.

This report on our review of transfer payments to school boards is organized under the following captions:

Accountability to the Department of Education
Financial Management
Capital Expenditure Planning and Control
Control of Fixed Assets
Purchasing
Policies and Procedures
School Construction Approval Process

Accountability to the Department of Education

Introduction

The current system for monitoring school boards has five main components.

- The Department of Education's Inspectors of Schools provide the Department with an on-going assessment of school board performance, primarily in non-financial areas.

- Audit Officers employed by the Department of Education analyze budgets and actual financial information for individual school boards, perform audits of non-global funds, perform financial management surveys and special reviews, and provide general financial advisory services to school boards.

- The Department of Education performs system-wide surveys of individual school boards. At the present time, the plan is to perform two to three surveys per year. There were no system-wide surveys conducted in 1989-90 and none are planned for 1990-91 due to financial and staffing constraints. Since amalgamation of school boards in 1982, approximately 12 boards have been surveyed by the Department.

- School boards are required to submit their annual budgets and their audited financial statements annually to the Department of Education. Boards have recently commenced submitting their monthly financial statements to the Department.

- The Research section of the Department collects, processes and reports information on enrolments, teachers, subjects taught, finance and student achievement in the public school system of the Province.

Observations

The key deficiency in the accountability system is that the Department of Education does not set measurable goals for the education system . Therefore, it is presently not possible to assess the amount of funding provided against measurable results. Proper accountability information cannot be provided to the Legislature under the current system.

We recognize that the difficulties faced by the Department of Education in this Province in setting goals and outcome measures for the education system are faced by the other provinces and administrators of education systems elsewhere.

The "Formula Review Committee Study" prepared for the Nova Scotia Department of Education by Doane Raymond Management Consultants, released in March 1990, indicates that school boards are not held accountable for either of their delegated responsibilities: prudent resource management, or effective delivery of public education. Doane Raymond contend that too much of the education system in the Province goes unmonitored for too long. On the basis of our audits we concur with this observation.

The following are specific deficiencies which we observed in the Department of Education's accountability system for school boards.

- The system-wide surveys performed at individual school boards by the Department of Education are not frequent enough. In the last 8 years, approximately 12 school boards have been surveyed. An interval of 8 years between surveys is too great.

- The provision of financial information by the school boards to the Department is not frequent enough. In the absence of reporting of outcome measures by the school boards, it is important, in our opinion, for the Department to monitor spending more closely than would otherwise be necessary. Periodical review of school board financial results throughout the year by Department of Education staff should indicate which boards are having trouble meeting their budgets and could benefit the most from financial advisory services. Boards have recently commenced submitting their monthly financial statements to the Department.

- The primary function of the Audit Officers currently is auditing, rather than consulting or advising, because of staffing constraints and the requirement to audit non-global grants. Obtaining a clear understanding of school board accounting practices, providing financial advisory services, and participating in surveys of the financial management area should also be useful to the Department of Education and school boards. The Department's long-range plan acknowledges this need and provides an implementation plan.

Financial Management

Our overall conclusions with respect to performance of the financial management function at all four school boards which we audited were:

- All had adequate financial management systems, although we had a number of suggestions for improvements for each board.
- The level of competence demonstrated by those in the senior financial management positions is fully satisfactory.

In the following paragraphs the results of our review of this area are discussed under five captions.

Budgeting
Financial Reporting
Long-Range Planning
Service Awards
Subsidization of Cafeterias

Budgeting

Our major findings relating to the budgeting process are summarized as follows.

- There were deficiencies in the documentation of policies and procedures for budget preparation at two school boards.
- None of the boards issued guidelines, including board priorities and assumptions, to management prior to commencing the budget preparation process.
- One of the Boards and its Finance Committee do not place as much emphasis on financial management as they should. Many of the important Board functions in this area have become the responsibility of the Superintendent and the Chief Financial Officer.

Financial Reporting

The four boards prepare periodic financial statements for management and the Board. These statements are generally produced monthly and include some form of analysis of financial results. The following is a summary of the areas where we felt some improvements were necessary.

- Three boards were not preparing a written comparison of actual and budgeted results (a variance analysis) for members of the Board and senior management on a monthly basis.
- One board was not preparing monthly projections of financial results for the year. At this board, we also found that the Board and the Finance Committee were not as involved in reviewing financial results on a monthly

basis as we thought desirable. At another board, monthly projections were prepared but not submitted to the Board.

- In one board, which was preparing monthly projections of financial results for the year, the impact of significant unbudgeted expenditures on financial results was not monitored and documented carefully enough before these expenditures were approved. As a result, the board incurred a deficit for 1989 which had not been projected.

Long-range Planning

All four school boards had some form of operational planning and long-range strategic planning. However, the planning of all four boards was not as comprehensive as we would have expected. Deficiencies in long-range planning were due in part to a lack of information from the Province regarding future initiatives in the facilities, curriculum, and funding areas.

The boards are not given information relating to future school construction plans of the Province, which makes it difficult for boards to do proper facilities planning. (This is discussed in more detail on page 100). The Province is not providing information concerning future availability of funds from the Province to the boards on a timely basis.

Proper planning cannot be done by school boards in a vacuum. A three to five-year planning horizon would appear to be the minimum requirement for school boards.

Service Awards

School boards have negotiated service awards payable to teachers at retirement as part of their local agreements with the Nova Scotia Teachers Union (NSTU). The amount of service award payable to individual teachers varies among boards. Service award payments are generally charged to expense by school boards as they are made. The Department of Education has been encouraging boards to set aside, in a Reserve Fund, amounts for the payment of service awards although there is no requirement to do so.

In 1990, those boards with substantial reserve funds of various kinds were told by the Department of Education to consider use of those funds prior to applying for additional grants.

Good financial accounting and management practices dictate that the amount of the expense and related liability should be accrued as earned and funded over the working life of the employee. The Department of Education and the Formula Review Committee should provide guidance to boards regarding the advisability of establishing Reserves for Service Awards and, if necessary, allow for this in the annual funding recommendations to the Province.

Subsidization of Cafeterias

Three boards were subsidizing their school cafeterias, one to a much greater extent than the others. The annual loss incurred on the cafeterias operated by one board has been approximately $300,000. We believe that the board should consider whether subsidization of cafeterias to such an extent should be a board priority, especially in light of the school board funding decisions made by the Province in 1990.

Capital Expenditure Planning and Control

Introduction

Funding for capital requirements of school boards is provided in the following manner.

- The board submits a list of major projects, such as construction of new schools or additions to existing schools, to the Department of Education but the decision as to which projects are undertaken is beyond the board's control. These projects must be approved by Management Board and Cabinet.
- Each board received a non-global, formula grant for capital equipment purchases, repairs and renovations prior to 1990. This grant was eliminated in 1990 but reinstated for the 15 month period ending March 31, 1992. "Global" formula grants can also be used for capital needs.
- The Department provides emergency capital grants and assistance for asbestos removal programs. In 1990, these totalled $3.5 million.

A summary of total capital equipment, repairs and renovations funded by the Department of Education by non-global formula grants in the years 1988-1990 and the amounts included by school boards in their budgets is scheduled below.

	Fiscal Years Ended December 31		
	1988	1989	1990
	(in $ millions)		
Non-global grants	$ 8.2	$ 8.7	$2.2 (1)
Board budgets	$12.3	$11.8	(2)
Non-global grants recommended by Formula Review Committee	$ 8.2	$ 8.7	$9.0

(1) Non-global capital grants were paid only for the first 3 months of 1990.
(2) At the time of our audits, the 1990 budgets had not been finalized.
(3) The non-global capital grants total $2.9 million for the 15 month period ending March 31, 1992.

This analysis shows that in both 1988 and 1989, school boards planned on spending more on capital equipment purchases, repairs and renovations than the amount funded by the Department of Education. The needs in this area were greater than the needs projected by the Formula Review Committee based on availability of funds.

In the four school boards reviewed, actual capital expenditures were in excess of the non-global capital grant received in each of the last three to four years.

Observations

Our major observations relating to the capital expenditure planning and control process at the four school boards are summarized as follows.

- Our overall conclusion at three boards was that the capital expenditure planning and control system was inadequate. At two boards, the inadequacy was attributable to deficiencies in the capital budgeting process, while at the third it was attributable to deficiencies in the accounting policies used. The fourth board, in our opinion, had an adequate planning and control system for capital expenditures.

- At three boards, the capital budget included only the amount of the non-global capital equipment, repairs and renovations grant received from the Province, rather than the anticipated amount of total capital expenditures for the year. At two of those boards, expenditures in excess of the budget were charged inappropriately to operating accounts.

  In order to achieve proper control over capital expenditures, the capital budget should include the total amount expected to be incurred for capital expenditures during the year, regardless of the source of associated funding.

- Three boards did not produce periodic reports for the Board and senior management of budgeted versus actual costs for individual capital projects. Such reports are necessary for appropriate control of costs.

- Only one board had a formal plan for future facilities needs. One board was in the process of preparing a comprehensive plan for this area. Two boards were communicating needs for individual schools to the Department of Education on a timely basis, but did not have a documented, comprehensive long-range facilities plan for the entire board.

Control of Fixed Assets

Introduction

School boards have large investments in fixed assets. Adequate control over these assets is important to ensure that the school boards derive maximum benefit from their assets and that the taxpayers' investment is protected.

Observations

The following observations resulted from our review of controls over fixed assets.

- The physical controls over fixed assets at three boards were deficient, due primarily to a lack of current fixed asset listings necessary for proper control. One of these boards had a policy regarding preparation and update of such listings, although it was not being complied with; the two other boards did not have an adequate policy. The fourth board had current fixed asset listings.

- All four boards lacked comprehensive, documented policies relating to physical security of board assets.

Purchasing

Introduction

School boards purchase their own supplies and services. Boards acquire these items from different suppliers and prices vary among boards.

Observations

The following observations resulted from our review of this area.

- All four of the school boards reviewed had an appropriate tender policy.

- Three of the boards did not have an adequate conflict of interest policy for staff members, although there was a policy for Board members.

- Two of the school boards had delegated responsibility for the purchase of teaching aids to individual school principals without providing adequate guidelines relating to where these supplies should be purchased or how the purchase decision should be made. As a result, schools were paying varying prices for supplies acquired.

The Nova Scotia School Boards Association instituted a bulk purchasing pilot project for school boards for the 1989-90 school year on a volunteer basis. Seven school boards chose to participate. One board which we reviewed was a participant in the project and expressed a great deal of satisfaction with the process and the savings achieved.

We believe that significant savings are attainable through bulk purchasing arrangements. These types of arrangements have been successful in other areas such as universities and hospitals.

Policies and Procedures

All four school boards had formal Board policies and procedures manuals. Policies in certain other areas are dictated by collective agreements with the Nova Scotia Teachers Union (NSTU), negotiated at both the local and Provincial levels, and by collective agreements with non-teaching employees.

Observations

We made the following observations as a result of our review of this area.

- Three of the school boards had inadequate policies relating to the control of school-based funds.

- All four boards had adequate systems for monitoring key statistics regularly on a school-by-school basis.

There were three areas found to have significant policy deficiencies at some or all of the boards.

School Closures – Three of the school boards did not have a school closure policy, although the Department of Education recommended on September 18, 1989 that each board have one. The Department of Education also indicated principles and guidelines for inclusion in such a policy.

One of the boards had vacant space in 20 of its 44 schools and had attempted to close certain schools for the 1990-91 school year. It encountered a great deal of opposition from the general public and eventually the motion to approve the closures was rescinded by the Board. We believe that the difficulties encountered by this board were attributable to the lack of a school closure policy. Another of the boards recently had to reverse its position on closure of a school because of public opposition.

The Department of Education's guidelines stress the need for public participation to be an important part of each board's school closure policy. It appears that the general public will often object to school closures because they result in transporting students further from home. Thorough and appropriate cost/benefit analysis may help to convince the community that school closures are necessary in certain situations.

Since guidelines for school closure should help achieve the objectives of improving efficiency and economy of operations, it would seem incumbent that the Department of Education, in conjunction with the school boards, reexamine the current guidelines. This should be done in order to ensure that the guidelines in place are ones which are both generally acceptable and practical. School closures are an important issue and we believe that the need for a school closure policy at all school boards is critical.

Student Transportation – Regulation 13 under the Education Act states that:

"13(1) A school board pursuant to Section 48(2)(c) of the Act shall make provision for the transportation of students either by providing the service itself, or making arrangements with some other person for such service, if:

(a) *one or more students reside more than 3.6 kilometres from the school to which they are to be transported; or*

(b) *one or more students, because of a physical or mental condition, cannot walk to school irrespective of the distance; and*

(c) *the school board determines that the transportation of students is necessary."*

All four school boards transport students who live within 3.6 kilometres of the school. One board has a formal policy acknowledging its transportation practices, the other three do not. In all cases, the boards' transportation expenditures were funded by the Department of Education, and the Department had never commented that the boards' transportation practices were inappropriate.

If a review by the Department of Education and the school boards indicates that 3.6 kilometers is not a reasonable distance (as might well be the case on the basis of current practice) then the guidelines should be modified.

The Department of Education should institute a process for monitoring school board transportation policies and practices to ensure compliance with an appropriate Provincial guideline. The Department's "Regional Review Committee Report" completed in October 1990 recommends that a provincial standard level of service be developed no later than September 30, 1991.

Pupil/Teacher Ratios and Class Sizes – Our review of pupil/teacher ratios across the Province shows average figures for the various boards ranging from 13.3 to 17.1 (a variance of 29%) with an average of 15.7 for the Province. In 1986, Nova Scotia had the fourth lowest pupil/teacher ratio in the country.

Only Quebec, Manitoba, and Newfoundland had lower ratios. Over the past 10 years, the average pupil/teacher ratio for the Province has declined from 17.0 to 15.7 (a decline of 7.6%).

Pupil/teacher ratios are inconsistent among boards in the Province and have declined over the past 10 years. There are no outcome measures to determine whether results of the education system in the Province have improved or whether boards with lower pupil/teacher ratios achieve better results than those with higher pupil/teacher ratios.

In our review we tried to determine whether the Boards (as opposed to the administrative staff) were taking an active role in setting guidelines and monitoring class sizes in their districts. Three of the four Boards which we reviewed were playing an active role in this area. The fourth Board had very little involvement. We contend that every Board should be very involved in the setting of appropriate class sizes, since this is the decision which has the most significant impact on board financial results.

To date, the Department of Education has not issued class size guidelines or suggested pupil/teacher ratios for the school boards in the Province. Senior management of the Department of Education contend they should not be involved in this area, as it is an individual school board responsibility. It is our view that, in the interest of better accountability for the expenditure of taxpayer dollars, broad guidelines should be available to evaluate and where possible modify significant deviations. This is not to be construed as a recommendation for rigid and narrow guidelines from which no deviations would be permitted.

Because teachers' salary costs are the largest single expenditure of boards, and class sizes are the primary determinant for the number of teachers and therefore salary costs, we believe that the Department of Education should be taking a leadership role in this area.

School Construction Approval Process

Introduction

Since 1982, 92 major school construction projects have been approved at an estimated cost of approximately $255 million. Projects include construction of new buildings, and additions and major renovations to existing buildings.

Requests for capital projects are submitted by the school boards through the Inspector of Schools to the School Planning and Conveyance Division of the Department of Education. The requests are classified and placed on a Moratorium List, to be reviewed by senior management of the Department, which is submitted to Management Board and Cabinet by the Minister of Education. Cabinet has the final authority for approving a project and allocating funds to it. The Province pays the complete cost of the capital construction projects.

The September 18, 1990 Moratorium List contains 106 projects with an estimated cost of $334,582,000. Three of the 12 projects classified as essential on the September 18, 1990 Moratorium List are for the Halifax County/Bedford District School Board. Of the 92 projects approved since 1982, 23% have been in Halifax County/Bedford.

The objectives of this assignment were:

- to gain an understanding of the Department of Education's process for prioritizing school construction/renovation requests received from school boards; and
- to review school construction/renovation projects approved by Order in Council since January 1982 (date of amalgamation of the district school boards) to determine whether approved projects were consistent with Department of Education priorities.

Observations

The following observations result from our review of the school construction approval process.

- Many school boards, the Department of Education, and the Province do not have long-range strategic plans for school construction. There is no time frame assigned to projects on the Moratorium List. Instead, projects are approved at the discretion of Cabinet with what appears to be no logical pattern to the timing of approvals. This lack of long-range planning results in a situation where school boards make requests for construction projects and generally receive no feedback on when or if the projects will be approved.

  To the extent practical, long-range plans for school construction and major renovations should be prepared by the school boards and used in the preparation of a Provincial long-range plan for school construction. The Moratorium List should be one of the outputs of this process. A long-range plan should consider both needs and affordability.

- Projects on the Moratorium List are classified into four categories:

  - Essential – Projects "required to accommodate critical overcrowding and/or extend the useful life of existing buildings and enhance safety. This category will also include those specific projects identified by government as priorities."(1)
  - Desirable – Project would "enhance program offerings and/or permit a more efficient utilization of staff. Under certain circumstances, these projects may reduce pupil school bus ride time or replace antiquated facilities."(1)
  - Optional – Project would "provide improvements to existing facilities, accommodate new programs, or allow for consolidation of schools."(1)
  - Future Consideration – These are instances where the "present facilities are adequate to accommodate enrolments and programs. If the status of these projects changes, they will be given consideration at a future date." (1)

- The essential category includes "projects identified by government as priorities." There are currently three projects on the Moratorium List which are in this classification. Apparently, this option is not used frequently.

- The Department places all formal requests from the boards on the Moratorium List. The Moratorium List is updated approximately monthly. The completeness of the Moratorium List is impacted by the diligence with which school boards identify and submit their capital requirements. However, the List does not include projects that are being reviewed by the

1 Attachment to the Moratorium List, Department of Education

school boards with the Department of Education prior to a formal application being prepared.

- Of the 34 projects approved by Order in Council during the 1987-88 school year, 23 (67%) were classified as essential on at least one Moratorium List prior to the date the project was approved by Order in Council. Only three (9%) were classified in the future consideration category.

  The following have been approved from the May 7, 1987 Moratorium List.

  11 of the 12 projects classified as essential
  4 of the 6 projects classified as desirable
  8 of the 16 projects classified as optional
  3 of the 29 projects classified as future consideration

- Of the seven projects approved since 1987-88, two appeared on the Moratorium List as essential, and five appeared on the List only after the Report and Recommendation to Cabinet had been prepared. However, this does not mean that the Department had no advance notice of the request; in all cases, the Department had been involved in discussions with the board for months prior to the formal application being submitted. Of the five projects that were placed on the List only after the Report and Recommendation was prepared, four were necessary because of changes in programs and facilities availablity. The fifth project, while not an urgent requirement, will result in consolidation and closure of several antiquated facilities.

- Since 1982 all school boards, except Dartmouth, have had at least one of their requested projects approved. As of September 1990, Dartmouth had only one request on the Moratorium List and it was classified as a future consideration.

- The process currently in place for prioritizing school board construction projects should be examined with a view to establishing priorities in a manner which would both clearly and openly meet the needs of the school boards within the financial resources of the Province.

The following schedule shows the total approved school construction projects by school board since 1982.

Department of Education

Summary of School Construction and Major Renovation Projects

1982 - 1990

School Board	Number of Projects	Cost		Enrolment 82-83	Enrolment 89-90		Gross Square Footage 82-83	Gross Square Footage 89-90	Square Footage Per Student 82-83	Square Footage Per Student 89-90
Annapolis	4	$ 14,828,000		4,496	4,080		479,127	520,370	107	128
Antigonish	2	4,200,000		4,842	4,605		462,981	451,204	96	98
Cape Breton	5	20,135,000		22,371	19,375		2,258,916	2,185,512	101	113
Clare Argyle	5	10,100,000		3,665	3,147		364,738	427,645	100	136
Colchester-East Hants	7	9,874,501		13,257	13,026		1,543,286	1,512,901	116	116
Cumberland	1	4,710,000		7,167	6,146		757,685	755,685	106	123
Dartmouth	1	12,190,000	(1)	12,541	10,902		1,562,201	1,344,241	125	123
Digby	3	5,935,000		2,533	2,133		255,465	267,400	101	125
Guysborough	5	15,055,000		2,989	2,554		301,435	323,624	101	127
Halifax City	2	2,830,000		16,902	14,305		2,406,677	2,339,506	142	164
Halifax County/ Bedford	22	65,624,400	(2)	27,363	29,764		2,607,656	2,911,663	95	98
Hants West	3	7,480,000		3,616	3,577		364,125	379,390	101	106
Inverness	1	5,728,000		5,383	4,635		702,024	616,631	130	133
Kings	7	12,193,500		11,060	11,095		1,093,353	1,295,507	99	117
Lunenburg	4	14,250,000		8,714	8,187		783,642	778,493	90	95
Northside-Victoria	5	9,227,000		8,203	7,083		860,424	838,040	105	118
Pictou	7	17,205,500		11,138	10,433		1,070,388	1,183,908	96	113
Queens	2	8,080,000		2,696	2,350		221,048	249,696	82	106
Richmond	2	5,125,000		3,055	2,471		384,297	362,969	126	147
Shelburne	2	7,188,000		3,547	3,100		306,446	302,389	86	98
Yarmouth	1	2,820,000		3,486	3,295		342,549	340,316	98	103
Hantsport	1	278,000		278	–	(3)	37,074	N/A	133	N/A
	92	$255,056,901		179,302	166,263		19,165,537	19,387,090	107 (4)	117 (4)

Notes:
(1) This project is the new French School, being built under an agreement between the Province and the Federal Government. As such, it is an unusual project which will not directly benefit the general school population. It was not requested by the School Board.
(2) Largest Board and only Board with increasing enrolments.
(3) Board has been amalgamated with the Kings County District School Board.
(4) Provincial average.

Universities

Summary

During the past year a review of selected areas of university administration was completed under the provisions of Section 15 of the Auditor General Act. The assignment, conducted between October 1989 and March 1990, covered seven universities - Acadia University, Dalhousie University, Mount Saint Vincent University, St. Francis Xavier University, Saint Mary's University, Technical University of Nova Scotia, and the University College of Cape Breton.

Objectives – In summary the objectives of our assignment were to assess:

- the financial management process;
- the planning and control systems over capital expenditures;
- the policies and procedures over the use and control of fixed assets and equipment; and
- the policies and procedures for the purchasing of goods and services.

Inherent in our review was a determination of the manner in which the administration and use of post-secondary education funding is accounted for.

Findings and Conclusions – In overview, the following are our principal findings and conclusions.

- The accountability requirements of universities to the Province, through the Maritime Provinces Higher Education Commission, and/or the Nova Scotia Council on Higher Education, are reasonably well established for the inputs (i.e. annual planning and budgeting, capital or equipment funding requests, academic program additions), but are inadequate for the outputs and results (financial and non-financial).

- We concluded that, with one exception, the financial management function at the universities is both well organized and performed well. Other major observations from our review of the financial management process are as follows.

  - Long-range planning has not been a priority for all of the universities we visited.
  - All of the universities have established annual budgeting processes which are well coordinated and controlled, including appropriate challenge and review mechanisms. But there are difficulties in preparing and finalizing these budgets prior to the Province's funding announcement for the universities.
  - We have expressed a major concern regarding the lack of comparability of the reported financial position and operating results of the universities we visited, because of inconsistencies in the application

of accounting and disclosure practices for their annual financial statements.

- Regarding internal management information and control, we noted all universities were not always allocating costs to those cost centres which incurred them; actual results on a departmental basis were generally being compared to budget plans; and certain, but not all, universities have initiated independent review processes for selected academic and/or administrative areas.

- Capital expenditures are reasonably well controlled and monitored, but there appears to be a need for a long-range provincial plan prioritizing capital related requirements and funding for post-secondary education institutions.

- The operating policies and procedures at all seven universities relating to the use and control of fixed assets are deficient, and should be improved where practical.

- The universities have introduced, and are to be commended for, their joint and bulk purchasing initiatives in the areas of purchasing, insurance, and information systems. We have observed the need for:

  - the introduction of a central purchasing function at one university;
  - the enhancement of conflict of interest guidelines at five of the universities; and
  - the establishment of policies and guidelines for public tendering at five universities.

- The individual university responses to our observations and recommendations, in terms of immediate or planned action on many of them, has been most gratifying to us. It would seem the experience has been a worthwhile one and of benefit to the universities.

Introduction

During the past year a review of selected areas of university administration was completed under the provisions of Section 15 of the Auditor General Act. The assignment, conducted between October 1989 and March 1990, covered seven universities.

Acadia University
Dalhousie University
Mount Saint Vincent University
Saint Mary's University
St. Francis Xavier University
Technical University of Nova Scotia
University College of Cape Breton

The Province's assistance to universities for the 1989-90 fiscal year amounted to approximately $215 million. These seven universities received approximately

90% of this funding. Four areas were selected for review during the visits to each of the seven universities.

- Financial management process – The objectives were to review the financial position and operating results, and also to assess the financial management process. The audit criteria included an adequate level of management and Board involvement; adequate financial planning, budgeting and costing practices; and adequate financial accounting, reporting and monitoring practices.

- Capital expenditures – The objective was to assess the planning and control systems over capital expenditures and related projects. The criteria included clearly defined and communicated statements of policies and responsibilities, adequate internal controls and procedures, and reporting requirements which are clearly defined and complied with.

- Fixed asset management – The objective was to assess the policies and procedures over the use and control of fixed assets and equipment. The criteria for this assessment related to the adequacy of policies and responsibilities, reporting requirements, and inventory control and security procedures.

- Purchasing practices – The objective was to assess the policies and procedures over the purchasing of goods and services. The criteria included adequate definition and communication of policies and responsibilities, use of bulk or joint purchasing, and reporting and monitoring of performance of the purchasing function.

Although certain of our inquiries related to the management policies and practices in the academic areas of each university, there was no attempt during this assignment to assess the merits of establishing or maintaining specific academic programs. Moreover, the summary observations in this article are not equally applicable to all institutions, and in many cases do not apply to some of the universities.

Discussions and meetings were held with management at the Nova Scotia Council on Higher Education (NSCHE) and the Maritime Provinces Higher Education Commission (MPHEC). Background information was received on overall policies and practices followed, as well as the information or reports received from or provided to the universities. However, we did not review the recent initiatives by NSCHE and the Council of Nova Scotia University Presidents (CONSUP) resulting from the Statements of Role and Planned Capacity prepared by the universities in the fall of 1989.

The more significant results of the 1989-90 university assignment are presented in this article under the following headings.

Accountability Framework and Reporting
Audit Observations
  Financial Management Process
  Capital Expenditures
  Fixed Asset Management
  Purchasing Practices

Accountability Framework and Reporting

Introduction – Perhaps the most important aspect of our transfer payment audit activity is to provide a commentary to the Legislature on the adequacy of the accountability process in place for the use of the funds provided.

Accountability in its simplest terms means the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties – one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it has been discharged.

Adequate accountability information should include an indication of an entity's objectives and how they are to be achieved; the resources required to achieve these objectives; an indication of the controls and information flow being used to monitor the achievement of these objectives; and an indication of the actual results achieved in relation to the original objectives, and reasonable explanations for deviations from them.

Accordingly, our task was to determine the manner in which the administration and use of the funds provided is accounted for in three dimensions: within the entities concerned (i.e. the universities); among the entities and various Government departments and agencies involved (i.e. NSCHE and MPHEC); and to the body with the prime responsibility for the allocation of funds, that is, the Legislature.

Accountability is a topic which engenders considerable discussion as to its application and meaning. Within the university community there has often been a tendency to consider accountability as not being applicable in the same way as it might be elsewhere, for reasons such as:

- universities fulfill their accountability by virtue of reporting to a Board of Governors;
- they prepare annual audited financial statements which contain unqualified audit opinions; and
- to respect the autonomy of universities there is no need for further accountability initiatives.

However, the topic of accountability has recently become the subject of serious consideration and discussion by many in the university community. Certain of the more significant points of view emerging from these discussions are as follows.

- There is an awareness and appreciation of the universities' need for autonomy, and the environment within which they function.
- An appropriate response to requests for a greater degree of accountability should reinforce this autonomy rather than jeopardize it.
- A reasonable accountability system should be as beneficial for internal management as for external purposes.
- The development of a suitable accountability framework must be carried out by the university community itself.

- Financial statements alone do not satisfy accountability needs in the public sector, because these statements do not provide adequate information about what has happened as a result of the money having been spent. Accordingly, the annual audited financial statements of a university cannot be deemed as fulfilling completely the accountability needs, even in the financial area.

The Nova Scotia university community, working in cooperation with the NSCHE, should develop a broader accountability framework, one which will serve both the universities themselves and those to whom they are accountable externally. It is acknowledged that this will not be an easy task, nor one which can be completed within a relatively short time frame. Nevertheless, the need for it must be accepted and positive steps taken to initiate it.

Observations – We have the following observations regarding the accountability framework and process relating to post-secondary education funding.

- The accountability requirements of universities to the Province, through MPHEC and/or NSCHE, are reasonably well established, at least in summary, for the inputs (i.e. annual planning and budgeting, capital or equipment funding requests, academic program additions), but are inadequate for the outputs and results (financial and non-financial).

- For the most part, universities are meeting the established information reporting requirements. However, the overall usefulness of certain information provided should be evaluated, especially for consistency and content in order to ensure information is comparable among entities.

- Specific policies and guidelines should be established for the contents, format, and timeliness of accountability information relating to the use of provincial funding. Information reports, whether financial or non-financial, also need to be prepared on a consistent basis to facilitate inter-university comparisons. Moreover, the universities must be a significant partner in the development of these processes.

- The accountabilities or expectations of the Province have not been clearly defined or communicated to the universities in the form of goals, objectives and desired outputs.

- Analysis of Budget Information – Detailed budget information is not provided by the universities to MPHEC or NSCHE. Accordingly, there is no meaningful analysis performed by either of these two bodies of actual to budget results.

  It is our contention that NSCHE and/or MPHEC should perform a review of individual university budgets, including a comparison of these to actual results. We recognize that the review and approval process for these budgets is clearly a prime responsibility of each university's Board of Governors. The purpose of our recommendation for this NSCHE and MPHEC involvement is to enhance their ongoing understanding of individual university financial plans on a more timely basis, rather than having to wait for annual audited financial statements.

- Annual Financial Statements – The annual audited financial statements represent the principal accountability document for the universities' financial position and operating results. However, as discussed later in this article, we identified a number of inconsistencies among the various universities' financial statements which, if the statements had been prepared on a consistent basis, would have resulted in revisions to the reported operating results.

  Appropriate steps should be initiated by the university community, including the NSCHE, to minimize these inconsistencies.

- MPHEC's Financial Information System – MPHEC has a financial information system which compiles data submitted by the universities. The data is submitted in the same format and to the extent defined by the Canadian Association of University Business Officers.

  Although this system has been in existence for several years, its usefulness is impaired due to inconsistencies in applying the guidelines for reporting certain of the financial information.

  It would seem essential that NSCHE and/or MPHEC in conjunction with the universities develop financial reporting guidelines which will permit meaningful analysis and comparison of financial position and operating results of the universities on a consistent and timely basis.

- Outcomes Analysis – The universities submit financial and non-financial information to MPHEC and NSCHE. Certain of this information is used to prepare summary and detailed reports comparing the information reported.

  Based on our discussions with university administrators, the usefulness of the summary information and reports sent back to them is limited because there are no specific guidelines or criteria against which to assess their own university's performance.

Audit Observations

This section summarizes the more important matters arising from our audit reviews at the seven universities. Subsequent to our visits, universities have initiated action or made plans to address certain of the items we have reported. We have acknowledged the more significant of these in this article.

Financial Management Process

Overview – We concluded that, with one exception, the financial management function at the universities is both well organized and performed well. At all universities senior management and staff are aware of the scarce resources available to them, and strive to ensure that their annual budgets are established and monitored. Our reviews at all universities did indicate areas for improvement, and we have made recommendations for managements' consideration.

The financial management function at the University College of Cape Breton (UCCB) was found to be informal. Roles, responsibilities, policies, and procedures were not well-defined or formally documented. We recommended that the financial management process be improved to more effectively meet the requirements of a university of UCCB's size and complexity.

All of the universities visited have well-established organization structures and processes. The roles and responsibilities of the Board, Senate (or equivalent), their committees, and senior management positions are well understood. Most Boards have delegated, through by-laws or other means, the ongoing management of major areas. We have recommended to the universities that formal policies and procedures in the financial management area, as well as the other areas reviewed, be updated and/or documented where necessary.

We have been informed of recent and planned initiatives at UCCB, and other universities, that will address a number of our recommendations. The universities are to be commended for these initiatives. In particular, we cite UCCB for the positive response to our observations and recommendations.

Planning – Long-range planning has not been a priority for all the universities we visited. Most did not have a formal long-range planning process in place. There were no strategic plans which dealt with such matters as initiatives for new courses and degree programs, enrollment projections for existing programs, related staffing and capital planning implications.

Of the seven universities only Acadia and Dalhousie had active long-range planning committees and processes. At the time of our audit visits, none of the universities had their long-range goals, priorities and plans finalized and approved by their Board of Governors. Both Acadia and Dalhousie were progressing well in their planning process.

At the request of MPHEC, Statements of Role and Planned Capacity were submitted in the fall of 1989. These statements required each university to consider its plans and direction for at least the next three years. They were requested as part of the funding formula review process, and replaced the Three-Year Plans that had previously been submitted. The Three-Year Plans were too summarized, and generally an abstract of the next year's budget and estimates of the two succeeding years.

In our view:

- Long-range planning activities at the individual universities and for post-secondary education funding and requirements on a Province-wide basis must be expanded.

- It is essential that the Province provide appropriate input to the university planning process, especially for funding, so the universities can take this into account in their individual plans.

Certain universities that had not dealt previously with long-range planning issues have taken initiatives to incorporate these activities into their formal management process.

Budgeting – Sound budgeting practices are critical to the overall success of the financial management process. Accordingly, our review involved an examination of the key aspects of the budgeting practices at each of the universities.

a) Overall Administration – Although the actual timing and procedures vary, all the universities have established annual budgeting processes, which involve input from and participation by various levels of management. These processes are generally coordinated and controlled through a senior management/Board committee.

   All universities had an appropriate challenge and review process for budget submissions within the university. No instances were noted where there was a significant duplication of effort in the annual budgeting process.

   However, we note that MPHEC has a policy that an accumulated deficit in excess of two percent of the annual operating grant should be reduced by two percent per year of future operating grants. Two universities, Dalhousie and the Technical University of Nova Scotia (TUNS), have significant accumulated operating deficits. As at March 31, 1989 neither university was complying with the MPHEC policy.

b) Finalization of Budgets – The finalization and approval of annual budgets at universities is delayed until the Province announces its funding decisions. As a result, universities have operated without approved budgets for one to four months of their fiscal year.

   However, certain universities prepare preliminary budget proposals, or request interim spending limits (e.g. 25% of prior year's budget) from their Executive Committee and/or Board, in order to obtain authorization to spend funds during those months of the fiscal period prior to budget finalization.

c) Multi-year Budgets – The difficulties in preparing and finalizing the annual budget prior to the Province's funding announcement were stressed by university administrators. The desirability of having multi-year funding announcements or commitments from the Province, in order to allow the universities to do multi-year budgeting versus one year at a time, was suggested by some but not all universities.

   With the exception of Acadia, none of the universities prepared formal detailed budgets beyond one year. A longer-term commitment for the level of Provincial funding would facilitate a longer-term budgeting process. In our view, while desirable, a multi-year funding announcement is not essential to the process. The universities could prepare longer-term budgets, clearly indicating their key assumptions and parameters.

A number of specific recommendations including the following were made to certain, but not all seven universities.

- If necessary, due to the timing of the Provincial funding announcement, an interim or preliminary budget should be prepared and approved by the

Board prior to the start of a fiscal period. Alternatively, specific spending authorities or limits should be established so that management can proceed on an authorized basis with plans and resource commitments for the next fiscal period.

- A separate annual capital budget should be prepared and approved.

- All new program initiatives, including those not qualifying for funding by the Province (e.g. continuing education, extension programs), should be assessed and approved, on a timely basis, in terms of financial viability or impact.

Annual Financial Statements – We had a major concern about the lack of consistency and therefore, comparability of the reported financial position and operating results of the Nova Scotia universities we visited.

Each of the universities reviewed had unqualified audit opinions provided by their external auditors for their financial statements as at March 31, 1989. This notwithstanding, the usefulness of the annual financial statements of Nova Scotia universities to the Province as the primary financial accountability report is reduced due to the lack of consistency in the accounting policies and financial statement disclosure practices used.

The Canadian Association of University Business Officers (CAUBO) has issued a set of guidelines relating to financial statement accounting and disclosure practices for Canadian universities. CAUBO provides general guidelines relating to accounting policies and financial statement presentation and disclosures required or desirable for those situations unique to universities.

While there is no requirement that the CAUBO guidelines must be followed, most universities have attempted to comply with them. However, compliance with and interpretation of these guidelines varies among universities and can impact on the comparability of the reported financial positions and operating results.

Areas where we noted inconsistencies in the financial statement accounting policies and disclosure practices are summarized as follows.

- Encumbrances (outstanding purchase orders and committments for goods and services yet to be received) and certain unspent budget allocations, are being recognized as expenditures and liabilities by some but not all universities. This results in recording expenditures in a fiscal period to which they do not apply.

- Not all of the universities use, or adequately disclose the use of, appropriations and reserves to provide for specific future plans or commitments.

- The fixed or plant asset accounting policies and disclosure practices vary among universities. For example, not all the universities capitalize and disclose major renovations as part of their plant asset fund.

- Revenues and expenses of ancillary operations have not always been adequately segregated from operating fund results and reported as ancillary or operational enterprises.

- As discussed later in this article, the costs that are allocated, and the methods used to allocate them, vary among universities.

- Although not significantly affecting the reported operating results, most universities were not reporting tuition and/or residence fee revenues on a fiscal year basis. This would require the deferral of certain fee revenues received to the subsequent fiscal year.

We have recommended that consistent application of financial statement accounting policies and disclosure practices is required in a number of specific areas, including, but not necessarily limited to, the following:

- segregation of approved academic and support activities from non-approved academic related, ancillary or operational enterprises, research, and endowments;
- creation and use of appropriations or reserves from operating funds, the majority of which may be provided through Provincial grants;
- accounting for and disclosure of fixed asset acquisitions and disposals; and
- allocation of costs and overheads to various segments of the universities' operations.

Management Information and Control – There are four matters, discussed in the following paragraphs, which impact upon the financial management process.

a) Cost allocations – For all universities we noted instances where costs are not being allocated to those cost centres which incur the costs. In situations where costs were being allocated, the method of allocation was not necessarily consistent among the universities.

This becomes significant from a Provincial accountability perspective when costs are, or are not, being allocated between approved academic related areas and other activities of the university. Examples of areas which should be charged with their full costs of operations are, among others, ancillary operations and research activities.

We are aware that certain indirect costs for research projects may not be recoverable under specific contracts. This does not negate our view that, in spite of this condition, university administration should be aware of the total costs of its research activity and this should be accurately reflected in both its internal and external financial statements.

b) Internal Financial Reporting – We found that generally, departmental results were being compared to budget plans on a monthly basis, and significant variances were being investigated. The nature and extent of these monthly procedures varied among the universities relative to the resources available and the perceived need for reporting.

c) Performance Reviews – Certain universities have initiated independent (internally or externally resourced) review processes for selected academic and/or administrative areas. The purposes of such reviews are to assess

results and performance in these areas, and identify improvements required or possible. We encourage adoption of this practice on a wider basis.

d) Annual Reports – Most of the universities no longer publish formal annual reports. The feeling in the university community is that a published annual report fulfills no useful purpose and incurs additional expenses.

While we recommend an expansion of the formal accountability reporting of universities to the Province, in our view their position on not publishing formal annual reports is reasonable, if the costs saved are significant.

Capital Expenditures

The capital expenditures section encompasses activities associated with land, buildings, equipment and furnishings, major repairs and renovations, and library acquisitions. Nova Scotia universities fund capital expenditures from a number of sources, including grants from the Province, capital campaign funds, endowment and research funds, and external borrowings.

The Provincial funds for capital expenditure purposes are provided in the form of restricted grants requiring prior approval by Government, and submission of supporting documentation to obtain reimbursement. The Province has also shared in funding both initial acquisition and ongoing maintenance of plant assets.

Overview – Overall, capital expenditures are reasonably well controlled and monitored. The more significant areas where improvements have been suggested are:

- There should be more formal planning and budgeting of capital expenditures on a long-term basis within the individual universities.

- There should also be a long-range Provincial plan prioritizing capital related requirements and funding for post-secondary education institutions. This plan should be considered during the annual funding approval process.

Observations – Other important matters relating to the capital expenditure process are summarized below.

- Concern was noted relating to the deteriorating state of physical plant resources. Commonly referred to as "deferred maintenance", it was indicated that significant expenditures have been deferred due to the lack of available funding.

  While all the universities felt "deferred maintenance" is a significant problem that must be dealt with, most did not have a complete and prioritized listing of their actual requirements.

- MPHEC/NSCHE recommendations to the Province for capital and maintenance related project funding have not been based on a comprehensive

definition and prioritization of requirements of the Nova Scotia universities in total.

In our view, such funding decisions should be made based on a comprehensive definition and prioritization of requirements, consistent with longer-term strategic requirements of Nova Scotia universities.

MPHEC had a Physical Plant Study underway, one of the purposes of which was to identify and quantify requirements in this area.

- Major capital expenditures and projects were reported upon to senior management and the Boards (or a designated committee) at all universities.

- All universities used a tendering or request for proposal process for major capital expenditures and projects.

- At only one university, Mount Saint Vincent University (MSVU), was there a requirement for a formal post-completion analysis of major capital expenditures. However, this policy was only recently introduced.

Recommendations relating to capital expenditures are as follows.

- Separate capital expenditure budgets should be prepared on an annual basis by each university.

- To the extent practical, the results of MPHEC's Physical Plant Study should be used in the development of policies and strategies for maintenance of physical plant assets for individual universities and on a Province-wide basis.

- Funding policies and guidelines regarding ancillary and other capital items should be clarified, documented, and applied consistently.

- Improvements are necessary at most universities in the development, documentation, and communication of policies and procedures in this area, including cost allocations and post-completion analysis.

Fixed Asset Management

The investment of Nova Scotia universities in fixed assets (land, buildings and equipment) and the Province of Nova Scotia's contribution to this investment is substantial. More than $469 million of fixed assets were reported on the March 31, 1989 financial statements of the seven universities. The Province participates in the funding of the initial cost of the assets, and also the costs of maintaining them.

Overview – Our overall conclusion is that the operating policies and procedures at all seven universities relating to the use and control of fixed assets are deficient, and should be improved where practical. However, no instances of misuse or loss of fixed assets came to our attention during this assignment.

We have recommended that the universities consider:

- developing and formalizing policies and procedures for this area;
- establishing responsibilities for monitoring of and reporting on fixed assets; and
- implementing, to the extent practical, a fixed asset management system, which as a minimum provides adequate controls in significant areas.

Observations – Other matters relating to fixed asset management are summarized below.

- In recent years, the administrative resources directed at accounting for and controlling university fixed asset resources have been decreasing. With increased fiscal restraint certain centralized accounting and control procedures have been cut back. More reliance is placed on departmental management and staff, to whom responsibility for the ongoing control of fixed assets has often been delegated by default.

- None of the universities had well defined policies and procedures relating to the use and control of fixed assets. Responsibility for the ongoing use and control of fixed assets has not been clearly defined and assigned within the universities.

- None of the universities had detailed accounting controls over their fixed assets. None maintained or periodically verified a complete list of their fixed assets. Within certain universities specific departments (e.g. library, computer centre) have implemented their own policies and practices for the use and control of equipment.

We are aware that significant costs can be incurred in the implementation and operation of a sophisticated fixed asset management system. The course of action to be adopted will clearly require a good deal of careful consideration, likely on a joint university basis. In our view, this may be an excellent opportunity for the universities to share in the acquisition of a common system.

Purchasing Practices

Universities in Nova Scotia spend approximately 25% of their total operating budgets on the purchase of goods and services.

Joint and bulk purchasing initiatives have been introduced through the Atlantic Association of University Purchasing Managers (AAUPM) and the incorporation of Interuniversity Services Inc. (ISI).

Overview – Our assessment of the purchasing practices at the seven universities resulted in the following conclusions.

- The universities' administrations are well aware of the need for purchasing practices which contribute to the economic acquisition and use of resources.

- The universities are to be commended for their joint and shared initiatives and participation to date in the areas of purchasing, insurance, and common information systems. The Province should continue to support such initiatives and participation where there are realizable benefits.

Observations – Further observations from the assessment of purchasing practices are as follows.

- The Nova Scotia universities' joint initiatives to reduce the costs of certain goods and services are illustrated by three examples:
  - joint/bulk buying arrangements through ISI and/or AAUPM;
  - insurance coverage through the Canadian University Reciprocal Insurance Exchange; and
  - NOVANET Library system.
- All but one university (TUNS) have established central purchasing functions to coordinate and control purchasing activities. In some situations, the centralized purchasing functions have delegated responsibility for the purchase activities associated with selected items (e.g. library, computers).
- The nature and extent of conflict of interest policies and guidelines at the individual universities varies. Only two of the universities (Dalhousie and MSVU) had adequate conflict of interest guidelines.

  In our view, all universities should have adequate policies and guidelines to ensure staff are aware of their responsibilities for identifying and reporting potential conflicts.
- Only two universities had established policies or guidelines indicating when public tendering (or request for proposals) procedures must be used.

  Public tendering or request for proposals are not used extensively, other than for the joint/bulk buying arrangements established by ISI or AAUPM.

  In our view, all major purchases of goods and services (including service and supply contracts) should be subject to a formal tendering or request for proposal process. Exceptions should be specifically approved by appropriate authorities.

Concluding Remarks

I consider it only fitting to comment briefly on our experience in the performance of this assignment at the seven universities. It was for both the universities and ourselves a first in terms of objectives, scope and reporting of results.

The reception accorded our staff in the performance of these audits was without exception one of full cooperation and openness, together with a degree of assistance that was of immeasurable benefit to us. A special word of appreciation is due to all the University Presidents and the Vice-Presidents – Administration for the attention given to the extensive review process of both our individual university

reports and the summary report of all seven. The observations which emanated from this review process were critical to the finalization of what we consider to be a worthwhile set of reports on these reviews.

The extent to which individual universities have reacted to our observations and recommendations, in terms of immediate and planned action or an intensive review to decide upon an appropriate course of action, has been most gratifying to us. On the basis of reaction we have received, it would seem that the exercise has been a worthwhile one and of benefit to the universities.

In the Summary at the start of this article is a tabulation of our more significant findings, conclusions and recommendations.

This Annual Report contains an article devoted to the Accountability Process (page 30). It includes my thoughts on certain aspects of Government organization, but also refers to both the education and health care fields. In the discussion on post-secondary education is a commentary on recent initiatives of the Council of Nova Scotia University Presidents and the Nova Scotia Council on Higher Education.

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SPECIAL DEPARTMENTAL REVIEWS

Introduction

Each year this Office performs broad scope reviews in certain areas of departments of government. These reviews may cover selected activities of a department, or the review of an activity or function on a multi-department or government-wide basis. Certain of these areas or functions, which are subject to a special audit review by this Office, are scheduled for review on a cyclical basis every three to five years. Others are subject to review less frequently.

During the past year 3 different types of special audit reviews were conducted, which in total comprised 14 audit assignments. There were 3 multi-departmental assignments, each of which is reported upon in this section of the Annual Report.

Computer Related Audits – Acquisition and Development of Computer Resources

Consultants – A review of selected aspects of contractual arrangements with consultants

Government-Wide Departmental Review – Revenues, Expenditures, Systems and Controls

Within agencies and departments of government, 10 in-depth reviews of specific programs and projects were carried out.

Computer Related Audits – Human Resource Management System and Provincial Data Centre

Expenditures under the Elections Act – The 1988 Provincial Election

Expenses of Members of the House of Assembly, Ministers, Deputy Ministers, Ministerial Assistants, and Judges of the Provincial Court

Department of Lands and Forests – Land acquisitions and disposals

Administration Lending Function – Nova Scotia Business Capital Corporation and Small Business Development Corporation

Department of Municipal Affairs – The property assessment function

Department of Solicitor General – Correctional Centres

Royal Commissions' Expenditures – Donald Marshall Jr. Prosecution and Health Care

Department of Transportation and Communications – Land acquisitions and disposals

A follow-up review to matters reported upon from prior years' audits was also conducted.

Computer Related Audits – two items from 1989

In addition to the special audits in the departments of government, as listed above, there were several assignments of a broad scope nature conducted in crown agencies and corporations for which our Office is not the appointed auditor, and also in entities which are the recipients of transfer payment grants and assistance. These audits are reported upon in separate sections of this Report entitled "Crown Agencies and Corporations" and "Transfer Payment Reviews".

Department Surveys

Summary

Background – In order to select and plan broad scope audits for the coming years, surveys were conducted in each department. The surveys determined areas of major audit significance, assigned priorities, and proposed audit assignments for each department. The surveys described, in summary form, each department's mandate, environment and industry, functional organization , geographic organization, and legislation.

They also outlined significant agreements, consulting reports, financial data, key activities and performance indicators. The surveys resulted in a prioritized list of broad scope audits for the next few years.

Introduction

The Province of Nova Scotia administers its affairs through the authority vested in 21 government departments. Department audits conducted by this Office have traditionally contained a mixture of attest, compliance and broad scope or program audit areas. Commencing in the 1988-89 audit year, attest and compliance areas were addressed in the government-wide departmental audit described on page 152 of this Report. Broad scope audit assignments were separated into audits of their own.

In order to determine which broad scope activities should be undertaken in the coming years surveys were conducted in every department. The purposes of these surveys were to analyze each department's activities and to determine areas of major audit significance and relative priority. A further goal was to define the objectives, general approach, timing, and staffing requirements for possible audits.

The first phase of the surveys was an overview of each department which included an examination of the following areas.

Mandate – This was a brief summary of the responsibilities and authorities of a department.

Environment and Industry – The purpose of this section was to provide a broad overview of the environment and/or industry in which a department operates.

Functional Organization – This part of the survey included a list of the divisions into which each department is organized, and a brief description of the role of each division.

Geographic Organization – In addition to the head office of a department some have office locations throughout the Province. The purpose of this section of the survey was to list all of the specific locations from which the department operates and the specific functions each location provides.

Legislation – Departments are usually responsible for administering one or more pieces of legislation. This section of the survey listed the relevant Acts, and a brief description of each.

Agreements – Departments often enter into agreements with other levels of government (e.g. Federal cost sharing agreements), as well as with private business entities. All such agreements were listed along with a very brief description of each agreement.

Financial Data – The surveys examined actual and budgeted revenues, recoveries, current and capital expenditures, and assets and liabilities.

Key Activities – Key activities are those tasks which the department must do well in order to fulfill its mandate. This information is usually not listed in specific documents, but is implied in several. These activities were summarized based on interviews with department management and staff.

Performance Indicators – Many departments have developed performance indicators to monitor their operations. The purpose of this section of the survey was to confirm that performance indicators have been introduced and to determine the extent of their development and use by the department.

Major Consulting Reports – Departments often hire consultants to review various aspects of their operations. Major consulting reports, no more than three years old, affecting the operations of the Department were examined.

The second phase involved an analysis of the information gathered, a review of previous broad scope or program audits carried out by this Office, and a review of the broad scope audit work carried out by other Provinces' legislative audit offices.

At this point, assignments of a broad scope nature were identified, objectives for each were defined, and the general approach and timing were developed. Specific assignments were then scheduled for the 1990-91 audit period.

Administration Lending Function

Summary

We completed an examination of the administration of the lending function for business and industry at the Nova Scotia Business Capital Corporation (NSBCC) and the Small Business Development Corporation (SBDC). The total authorized financial assistance as at March 31, 1990 was $445 million. This represents one of the largest capital asset bases within Government.

Certain lending and administrative responsibilities for specific accounts were being performed by departmental staff other than that of the two entities – NSBCC and SBDC. The departments that continued to retain these responsibilities were Industry, Trade and Technology (ITT); Small Business Development; and Finance.

Objective – Our objective was to assess the administrative policies and practices for the management and control of financial assistance provided through the Acts each is responsible for.

Findings and Conclusions – The following is a summary of our findings and conclusions.

- Effective April 1, 1988, a realignment of authorities and responsibilities took place for the administration of lending activities for business and industry. The principal change was the formation of the Nova Scotia Business Capital Corporation. Since then there have been delays in the assignment of legal and administrative responsibilities for several key aspects of this lending function; significant changes in authorities and responsibilities; and voids in the assignment of certain critical responsibilities.

- As a result there have been serious problems in administration of the lending function. The principal problems are:

  - a need for improvement in the development and adoption of appropriate policies, standards ,and procedures in a number of administrative areas;
  - deficiencies in monitoring and collection activities, particularly for risky or sensitive accounts; and
  - inadequacies in the flow of information and required communication among the various Government departments and entitites engaged in lending activities.

- As pointed out in my 1989 Annual Report, the fragmentation of responsibilities has created a situation where it was virtually impossible to achieve effective overall administration of the lending function. Accordingly, it is our recommendation that administration and accounting for all financial assistance provided to business and industry be centralized in one entity.

Introduction

The Province provides financial assistance to business and industry in a number of ways, including loans, equity investments, and guarantees. The authority for this assistance is from a number of Acts, and administration of the function now rests with two distinct lending entities. The total authorized financial assisance as at March 31, 1990 of $445 million represents one of the largest capital asset bases within Government.

In the Fall of 1990, this Office conducted an examination of the administration of the lending function at the Nova Scotia Business Capital Corporation (NSBCC), the Small Business Development Corporation (SBDC), the Department of Industry Trade & Technology, and the Department of Small Business. Our objective was to assess the administrative policies and practices for the management and control of financial assistance provided through the Acts each is responsible for.

Criteria – The following general criteria were used to assess the financial assistance related management and administrative activities.

- Roles, responsibilities and authorities should be clearly defined, assigned and co-ordinated.
- Policies and procedures should be clearly defined and followed.
- Reasonable efforts should be taken to protect and secure the financial assistance provided by the Province (e.g. loans, shares, guarantees).
- There should be adequate monitoring and reporting of the status and results of financial assistance provided.
- Documentation and records relating to the financial assistance provided should be adequately controlled and co-ordinated.

Background – This Office is the financial statement auditor of the following provincial lending entities and Funds that provide financial assistance under specific Acts.

- Nova Scotia Business Capital Corporation, including the NSBCC Fund, through the Business Capital Corporation Act.
- Industrial Estates Limited (IEL) through the IEL Act.
- Industrial Expansion Fund (IEF) through the Industrial Development Act and the Venture Corporations Act.
- Industrial Loan Fund (ILF) through the Industrial Loan Act.
- Small Business Development Corporation, including the Small Business Development Fund, through the Small Business Development Act.

Since April 1, 1988, responsibility for the administration and management of the financial assistance provided through these entities or Funds has been reorganized and reassigned a number of times. As at March 31, 1990, for the most part responsibility was allocated between the NSBCC and the SBDC as follows.

- NSBCC was responsible for the NSBCC Fund, IEL and the IEF (excluding accounts under the Venture Corporations Act, which remain the responsibility of the Minister of Small Business Development).

- SBDC was responsible for the Small Business Development Fund (including the capital costs of industrial parks and malls previously held by IEL) and the ILF. The day-to-day administration of the industrial parks and malls is assigned to staff of the Department of Small Business Development.

However, as has been the practice in prior years, certain lending and administrative responsibilities for specific accounts were being performed by departmental staff other than that of the two entities – NSBCC and SBDC. The Departments which continued to retain these responsibilities were Industry, Trade and Technology (ITT); Small Business Development; and Finance.

Previous Audit Observations – To furnish an additional perspective to the observations and conclusions derived from this year's audit, comments from several previous audits are noted. In prior years our audits of the Resources Development Board resulted in the opinion that administrative practices were generally adequate, because there was an appropriate degree of concentration of responsibilities. There were deficiencies reported upon, however, such as instances of noncompliance by venture corporations in submitting required information to the Venture Corporations Board; and the lack of appropriate guidelines and administrative policies for the administration of receiverships.

In an examination of the lending and investment process at Industrial Estates Limited performed in 1985, we concluded that administration was sound and business like, and that the Corporation's management appeared to be fulfilling its responsibilities in an effective manner. We found files and other documentation well prepared and maintained. Our assessment of the Board of Directors was that its combined expertise and outside perspective had served the Corporation well in providing an independent point of view to complement management's efforts and initiatives.

The significance of the foregoing, especially regarding IEL, is that an entity with a clearly established mandate to administer a lending function was able to do so effectively. To fragment responsibilities, to continually realign them, and to leave an air of uncertainity for an extended period over certain key responsibilities will result in:

- an extremely difficult task for those charged with certain key responsibilities; and
- disparities, inadequacies and voids in administrative practices, as are described in the next section of this article.

Results of 1990 Audit

A reading of the observations, conclusions and recommendations in this section of our article should be done in the following context.

- Many of the deficiencies noted are not necessarily attributable to management inattention or shortcomings, but rather are a manifestation of the unsatisfactory administrative and legal environment under which the entities were forced to operate.

- Accordingly, this is an overall assessment of the collective administration of the lending function, with a view to identifying areas for improvement, rather than a focus on existing management of individual entities.

Our examination of administration for the lending function indicated wide disparities and even voids in the application of appropriate policies and practices in some areas. However, we acknowledge that both NSBCC and SBDC have generally accepted the reasonableness of our observations and recommendations. Each entity is proceeding to act upon those matters within the scope of its existing administrative and legal mandates.

The discussion of our audit results is presented under the following four captions.

Application, Review and Approval
Monitoring and Collection
Documentation
Disbursement Process

Application, Review and Approval

Introduction – Both NSBCC and SBDC have established procedures for the review and approval of requests for financial assistance. These include submission of a formal proposal and/or application form, along with other requested supporting documentation.

Information received with a request for financial assistance is normally reviewed by staff. Staff's report and recommendation is submitted to senior management, and then to the respective Boards for review and approval.

Objectives and Criteria – The objectives of our review were to assess whether assistance had been evaluated and processed in accordance with established policies and legislation; and also whether the practices followed were reasonable.

A number of criteria were used for purposes of our assessment. The more significant of these are as follows.

- Responsibilities and authorities for the review and approval of requests for financial assistance should be defined in formal policies and procedures which should be documented, and effectively communicated to all personnel involved.

- Requests for financial assistance should be adequately documented, include all prescribed supporting information, and be in accordance with the requirements of the respective Acts, Regulations, and established authorities.

- Requests for financial assistance should be adequately reviewed, analyzed and evaluated by staff and senior management prior to a recommendation being made to the Board.

- Security to be provided for requested financial assistance should be assessed to ensure the Province's position will be protected.

Observations – Our observations in this area are as follows

- Although policies and procedures exist for the application, review and approval of requests for financial assistance, these have not been fully documented and approved in a formal policy and procedures manual.

- We found that proposals submitted through the Business Advisory Services (BAS) Division of the Department of Small Business Development did not have the required application forms completed. Also, BAS staff presented their recommendations on requests for financial assistance directly to the Board without involvement by SBDC staff or management. This practice was stopped about October 31, 1990.

- Information (e.g. – markets, industry trends, sales projections, production requirements, security valuation) is provided by applicants to support requests for financial assistance. Such information is reviewed by staff, but usually not independently assessed or verified.

- The file documentation supporting the application, review and approval process needs improvement in certain areas. For example, not all files we reviewed included specific documentation indicating that:

  - requests for assistance met the requirements of the applicable Acts and Regulations;
  - the applicants' key organizational and/or human resources had been assessed;
  - existing business and/or production facilities, as well as proposed new or expanded facilities had been assessed; and
  - a valuation of the security to be provided was completed.

Conclusions and Recommendations – For both Corporations it is our conclusion that requests for financial assistance have been reviewed and approved in accordance with the respective Acts, Regulations, and established authorities.

However, we have recommended that:

- consideration be given to the preparation of a manual to codify all policies and procedures, which should be consistently applied;

- increased use be made of independent reviews of key information (e.g. markets, production requirements, security valuation) provided to support a request for financial assistance; and
- steps be taken to improve the completeness of documentation in account files supporting staff reviews of assistance requests.

Monitoring and Collection

Introduction – The nature and extent of monitoring procedures will vary depending on a number of factors such as the type and amount of financial assistance provided, the Province's security, and status of the account.

There were accounts and account activities being administered fully or partially by staff outside of the lending entities. These were being administered by staff of the Departments of Finance; Industry, Trade and Technology; and Small Business Development. The extent of NSBCC or SBDC involvement in these account situations varies.

Objective and Criteria – The objective of our review was to assess the policies and practices for the monitoring and collection of financial assistance.

The following summarizes the more significant criteria used in our assessment of this area.

- Responsibilities and authorities for monitoring and collection activities, including protection of the Province's position or security, should be well defined and clearly assigned.
- Formal policies and procedures should exist to cover all aspects of the monitoring and collection process, including assistance administered by other than the two lending entities; action regarding clients' non-compliance with the terms and conditions for the financial assistance; and steps to protect the Province's investment when accounts are in difficulty.
- Insofar as possible there should be an independent monitoring of accounts for collection purposes, by staff other than those involved in the initial proposal and recommendation process.

Observations – Our observations in this area are as follows.

- Policies and procedures for monitoring and collection activities are not adequately developed or documented. There is need for improvement in a number of areas, in particular a requirement for guidelines prescribing more stringent monitoring practices (e.g. site visits, current financial information) for sensitive or high risk accounts, and guidelines to ensure timely and effective action to protect the Province's position when an account experiences serious problems.
- The following comments relate to the internal reporting on account status to senior management and the Boards.

- The staff of both entities prepare monthly arrears reports. The format and content of these reports vary. For example, SBDC accounts 30 days or more in arrears are reported, while NSBCC accounts are not included until they are at least 2 payments (which could be 90 days) in arrears.
- Senior management of both entities provide reports to their Boards on the overall status and financial highlights of the Funds.
- Status reports on assistance administered by other Departments or staff outside the lending entities were not being provided to or requested by the NSBCC and the SBDC.
- Formal reports summarizing the results of matters arising from account monitoring activities were prepared on an infrequent basis (e.g. non-compliance with terms and conditions).

- The BAS Division of the Department of Small Business Development had been presenting requests for assistance directly to SBDC's Provincial Board for approval until October 31, 1990. Subsequently, SBDC assumed responsibility for the administration of such assistance, and for monitoring compliance with terms and conditions.

  Through Order in Council, ITT had assistance authorized and advanced from Funds administered by the NSBCC.

  With regard to these arrangements the SBDC and the NSBCC were not made aware of monitoring procedures being followed by the Departments and there were no status reports provided from the Departments.

- Other comments on the monitoring and collection activity include.
  - Annual financial statements and staff analysis or reports on them, were not on file for ten of the accounts which we tested. Such information is essential for effective monitoring.
  - At the NSBCC insurance coverage and endorsements for assets acquired by clients with assistance, or pledged as security, were being reviewed for adequacy and continuity by clerical staff only. This responsibility has recently been re-assigned to account executives. At the SBDC, coverage is reviewed at a staff level equivalent to an account manager.
  - The responsibility and authority to monitor assistance under the Venture Corporations Act has not been formally assigned to either SBDC or NSBCC. As a result, neither of the entities is monitoring compliance of the venture corporations to their loan agreements.

Conclusions and Recommendations – On the basis of our review we concluded that the policies and practices for the monitoring and collection of financial assistance must be improved.

While we acknowledge that both entities have a mandate to provide financial assistance to promote and support the development of industry or business in Nova Scotia, there is need for a more concerted and co-ordinated effort regarding moni-

toring and collection activities. This is because there is a primary responsibility on the part of all lending authorities to ensure that the Province's investment and security positions are effectively protected at all times.

More specifically, monitoring activities must be improved in the following areas.

- There is a critical need for more specific guidelines relating to administration of high risk and problem accounts, as well as those not complying with the terms and conditions of assistance agreements.

- The reporting and documentation of the results of monitoring accounts and assistance portfolios should be improved. This reporting should be consistent among the lending entities, and be extended to accounts administered by other departments.

Documentation

Introduction – The administration and management process for both financial assistance requests and subsequent advances results in various types of information or documentation. Essential legal, security, accounting and other administrative documentation must be obtained or prepared, retained on filed, and adequately controlled.

Objective and Criteria – Our review of this area was directed towards an assessment of the documentation obtained and prepared in the assistance process, with particular emphasis on legal documentation and current financial information.

The following summarizes the more significant criteria used.

- All information and documentation – legal, security, accounting, other administrative – required by the respective Acts or Regulations, and for internal procedures should be obtained or prepared, filed, and controlled.

- All necessary supporting documents for the pledging of assets as security, and the required insurance endorsements should be on file and current.

Observations – These observations supplement to some extent those included in the Application, Review, and Approval section of this article.

- Neither entity has formal policies or standards established for the organization and content of account files.

- There is written evidence at SBDC that the legal documents are being checked by the staff solicitor against the letters of offer requirements.

- Legal and other documentation supporting IEF assistance requests, approved through ITT without NSBCC involvement, were not being sent to NSBCC on a timely basis.

- Current financial statements (audited or unaudited) accompany requests for assistance, or are normally obtained and reviewed before assistance is

recommended and approved. However, at SBDC the financial information on file for the BAS accounts tested was incomplete.

- Although formal agreements, which include the terms of the assistance, are supposed to be on file in the form of letters of offer and acceptance, signed letters of offer and acceptance were not present in three of the files examined.

- Copies of insurance endorsements were not in five of the files examined.

Conclusions and Recommendations – Situations were noted where information and documents that should have been on file and readily accessible were missing. Account file documentation should be improved.

The organization of and control over the documents, records and account files supporting the financial assistance provided would be improved through the establishment of standards. Wherever practical, these standards should be consistently defined and applied.

Disbursement Process

Introduction – Once a request for financial assistance has been approved, and all required legal or other administrative documentation is in place, advances against an authorization can be initiated.

Advances are normally made by cheques requisitioned by the lending entities from the Department of Finance.

Objective and Criteria – The objective of our review was to assess the adequacy of and support for the disbursement process for financial assistance.

The criteria we used included the following requirements.

- A properly prepared and approved disbursement form should be used which indicates that all legal work, necessary reviews, and approvals of terms and conditions have been completed before a cheque requisition is prepared.

- Disbursements for loan advances should not be made until all legal, security and other required documentation has been received or formally acknowledged to be in place.

Observations – Our principal observations are as follows.

- In two NSBCC files we examined, disbursements of loan advances had been made before all security documentation was received or acknowledged. These were IEF accounts that existed prior to NSBCC being formed in 1988.

- In two SBDC files we reviewed, the disbursement form was not on file, and in another file the legal approval area on the disbursement form was not completed.

Conclusions and Recommendations – Our overall conclusion is that the process for disbursing financial assistance is generally satisfactory but there are areas for improvement.

In some instances, staff have not been diligent in ensuring all required legal, security or other documentation was in place before the disbursement process was initiated.

Concluding Remarks

The fragmentation of administrative authorities and responsibilities for certain segments of the lending function, combined with realignments of these responsibilities during the period immediately preceeding the establishment of NSBCC and in the nearly three years following, have resulted in significant administrative problems.

Moreover, accountability for effective administrative performance of the lending function could not be fully assumed by the two major lending entities, because of the continuing realignments of responsibilities and the extensive periods during which voids in responsibility assignments prevailed. Accordingly, management of the NSBCC and the SBDC, cannot be held fully accountable for the deficiencies and weaknesses which we found in our 1990 examination of the administration of the lending function.

The seriousness of the administrative problems experienced over the past several years leads us to the following recommendation.

- In our view, the administration and accounting for all financial assistance provided to business and industry should be effectively and consistently co-ordinated through one entity.

  To be organized otherwise is to risk a continuation of past inconsistencies and deficiencies in key administrative areas; overlaps and voids in fundamental practices; and uncertainties and conflicts relating to accountabilites and responsibilities.

While we acknowledge that both NSBCC and SBDC have a mandate to provide financial assistance to promote and support the development of industry and business in Nova Scotia, there is need for a more concerted and co-ordinated effort regarding monitoring and collection activities.

It is our understanding, at the time of finalizing this Annual Report, that Government is giving serious consideration to the consolidation of all lending activities under one entity.

Computer Related Audits

Introduction

Each year this Office conducts audit reviews of the controls for selected computerized information systems. Our evaluations of these controls are based primarily on the objectives and minimum standards outlined by the Canadian Institute of Chartered Accountants in its publication "Computer Control Guidelines".

Included in this section are articles summarizing the results of our 1990 reviews in the following areas.

- *Follow-up to 1989 Reviews* – Action has been taken or planned to address many deficiencies dealing with microcomputer resources and system maintenance controls.

- *Project Management Function* – The policies and practices used to manage the acquisition, development and implementation of new information systems need to be improved.

- *Human Resource Management System* – Control and security concerns identified, have by and large been remedied or are being addressed.

In addition to these reviews, during 1990 we also completed a review of the basic physical and general environmental controls at the new Provincial Data Centre (PDC). Many of the information systems used by departments and agencies are processed at the PDC, which is managed by the Systems and Computer Services Division (SCSD) of the Department of Government Services.

We concluded that the physical and general environmental controls in place at the PDC have been properly implemented and are operating effectively. We suggested that the formal disaster recovery and contingency plans for the significant information systems processed at the PDC be reviewed, updated if necessary, and tested to the extent practical.

Computer Related Audits
Follow-up to 1989 Reviews

Summary

Last year's Annual Report included articles on two government-wide reviews, one on microcomputer resources and the other on systems maintenance controls. Follow-up surveys of all the departments involved with those assignments were completed in 1990.

Objective – Our objective was to determine the status of action taken or planned to improve policies and controls in these areas.

Findings and Conclusions – The following are the principal findings and conclusions from the surveys.

- Management Board, through the EDP Advisory Committee (EDPAC), has established a Personal Computer (PC) Policy Committee to assist in improving the management of microcomputer resources. Also, certain departments have taken positive action or have plans to implement their own standards and procedures to enhance the use and control of their microcomputer resources.

- As the complexity and use of information systems increase there will be a corresponding need for stronger controls over system maintenance activity. Although certain of our concerns remain, we are encouraged by the action taken or planned to improve the controls over changes to information systems.

Microcomputer Resources

There are now more than 1,800 microcomputers (versus 1,100 in 1989) being used in departments and agencies. Approximately one-third of these are used for educational purposes in the community colleges. Several departments are heavily dependent on these resources, which are for a variety of purposes ranging from stand-alone systems to direct communication with other computers.

Last year, we summarized the results of a government-wide review of the acquisition, use, and control of microcomputer resources. The objectives of that assignment were to determine if there were adequate policies and standards to control their acquisition and use; and to assess whether microcomputer resources were being adequately controlled.

Overall we concluded that the authorization and acquisition of microcomputer resources was well controlled, but formal policies and guidelines for the use of microcomputer resources needed to be improved.

A follow-up survey was completed this year to determine the extent of actions taken or planned by EDPAC and the 25 departments or agencies covered in the 1989 assignment. The following comments highlight the more significant changes and initiatives identified.

- Management Board, through the EDPAC, established the PC Policy Committee to consider topics and compose draft policies on items concerning the management of microcomputers. This Committee comprises representatives of Management Board, Government Services and certain line departments.

  One policy directive, relating to software copyrights, has already been issued. The Committee is currently addressing several other topics, and anticipates its primary tasks will be completed within the next two years.

- Certain of the 25 departments have taken action or have plans to improve their use and control of microcomputer resources.

  - Three departments now have formal policies to control the use of their microcomputer resources. Several other departments have indicated that they are awaiting receipt of additional directives from the PC Policy Committee prior to finalizing their policies.
  - Eleven departments now allow employees to bring their own computer resources to the job site to assist in the performance of their duties. The use of employee-owned microcomputer resources for departmental business should be approved and adequately controlled, especially in cases where it may result in a long-term dependence on such resources. This topic is being considered by the EDPAC's PC Policy Committee.
  - Twelve departments have established formal plans to address the microcomputer related training needs of employees. This topic is being considered by the EDPAC's PC Policy Committee.
  - Seven departments have not yet reviewed their microcomputer based information systems to identify and evaluate the risks to which the systems may be exposed. Control procedures should be in place to provide reasonable assurance of the integrity and security of these information systems.
  - There are no formal criteria or guidelines established to assist departments in evaluating the need for maintenance service contracts for microcomputer resources. This topic is being considered by the EDPAC's PC Policy Committee.

Systems Maintenance Controls

Computerized information systems usually consist of a number of individual programs which have controls and procedures (e.g. edit tests, calculations, and reports) built into them. Information systems are not static and are subject to change and revision. All changes to the individual programs that make up these systems must be properly approved, tested and documented. Recordkeeping errors, incorrect management information or opportunities for fraud could result if incomplete, inaccurate or unauthorized changes are made to information systems.

Last year, we summarized the results of a review of the systems maintenance controls over changes to information systems processed at the PDC. Our objective was to assess the adequacy of procedures used to control program changes to significant information systems operating at the PDC. Responsibility for this function is shared by SCSD and user departments.

Our overall conclusion was that the level of control over changes to programs should be improved. Also, in our view, it was essential that SCSD provide a leadership role to ensure that the appropriate improvements were initiated.

In late 1990, inquiries to SCSD and the six user departments indicated that action has been taken or is planned in some but not all instances. The following

summarizes the current status of action taken or planned to improve the systems maintenance controls.

- To ensure its policies and guidelines are adequately documented, SCSD initiated a project in January 1990 to update its manuals. A new User Services Manual is planned for development in 1991-92.

- SCSD has also initiated an ad hoc standards committee to review and make recommendations to department management on standards, policies, guidelines, and procedures relating to the development and support of information systems.

- SCSD is revising its program change control procedures to incorporate methods of verifying the integrity of program code. However, independent reviews and verification of program changes will not be performed as SCSD believes that there is a low risk or exposure for errors, and staff resources are not available.

- SCSD is updating its list of "authorizing agents" to ensure that all access to program code under development or maintenance is authorized.

- For the six user departments we reviewed, in the 1989 assignment, the following status comments are highlighted.

  - All departments now have established controls and/or procedures to ensure that only authorized changes are initiated.
  - All but one department now have controls to ensure that changes which are accepted to the production environment are authorized, tested, and documented.
  - All but one department now have instituted procedures to control emergency program changes.

  The costs of additional control procedures in this area must be considered by departmental management in light of the risks to the integrity of each information system.

Computer Related Audits
Project Management Function

Summary

In 1990, we commenced a government-wide review of the project management function for new information systems.

Objectives – Our objectives in this the first phase of our audit, were to survey departments, and assess the project management policies and practices for the acquisition, development, and implementation of computerized information systems.

Findings and Conclusion – The overall planning and management of information systems resources has improved significantly since the establishment and evolution of the Electronic Data Processing Advisory Committee (EDPAC) of Management Board.

However, the policies and practices used to manage the acquisition, development, and implementation of new information systems need to be improved. Based on the information provided we noted instances of:

- inadequate planning and costing of projects prior to approval; and
- inadequate reporting and monitoring of project status, including costs to date and to complete.

Significant initiatives are currently underway or planned by the EDPAC , as a result of the recently completed Information Resource Management Study. This study conducted by a major consulting firm recommends adopting a standard systems development methodology and training staff, to achieve effective management of information system projects. It is our opinion that adoption of this methodology is essential.

While prime responsibility for effective project management rests with the individual departments, there must be a centralized monitoring or quality assurance function in place, through the EDPAC or the Systems and Computer Services Division (SCSD) of the Department of Government Services. This would assist in ensuring the proposed standard methodology is adequately and consistently applied.

The completion of this phase of our review was affected by delays in obtaining certain information and supporting documentation that should have been readily available.

Introduction

In 1990, we undertook the first phase of a government-wide review of the project management function for new computerized information systems. Our objectives were to survey departments, and assess the project management policies and practices for the acquisition, development and implementation of computerized information systems.

Project management encompasses more than just the activities of a project manager. It involves planning, controlling, and reporting the involvement and activities of all parties concerned with a system's implementation. An effective project management function helps to ensure that projects are successfully planned and controlled in terms of time, costs and deliverables. It also helps ensure that project or system problems are identified and addressed as soon as possible.

Scope and Criteria – The assignment, commenced in the fall of 1990, is to be phased over two years. We are reporting on the first phase – a survey of 18 projects in 13 departments or agencies – in this year's Annual Report. The next phase, a more in-depth review and assessment of selected projects, is to be performed in 1991.

A survey questionnaire was developed and sent to the departmental management having responsibility for each of the projects. We identified the following general criteria for assessing the project management function.

- Roles and responsibilities for the ongoing project management function and activities should be clearly defined, assigned and effectively monitored.
- There should be a well-defined project management function in place to organize, control and monitor progress, including adequate reporting to senior management on project status, cost and issues to be resolved.
- All costs associated with the acquisition, development, implementation, operation and maintenance of new or significantly modified information systems should be included as part of the project approval and ongoing management process.
- Security, control and audit specifications should be clearly defined, and effectively managed as part of major projects.
- After a system is implemented, and also at certain key points during larger projects, a detailed assessment of results versus plans should be completed.

It should be emphasized, we did not evaluate the justification for the individual information systems, but concentrated on the management of specific projects.

The projects reviewed varied in nature and size, as well as current status. Some projects were still in process, while others had been completed. We sought independent expert advice to ensure that our principal conclusions were reasonable, and our recommendations practical.

This phase did not include a review of the information and documentation available through the EDPAC. However, it will be necessary to review this information and documentation in the second phase.

Background – The overall planning and management of information system resources within the Province has improved significantly in the last five to six years through the establishment and evolution of the EDPAC. There is an established process associated with the decision to proceed with the acquisition or development of information systems. This includes review, and where appropriate, approval by the EDPAC of at least the following:

- long-range systems plans (LRSP's) submitted by departments;
- if necessary, more detailed application long-range plans;
- as part of the annual budget process ("EDP Budget Portfolio"), requests for information systems funding; and
- specific requests to proceed with budgeted expenditures for information systems.

SCSD also participates in the review process. It is involved in the preparation of the annual "EDP Budget Portfolio", and the subsequent co-ordination of expenditures.

The annual "EDP Budget Portfolio" summarizes approved expenditures by project. In the last three years the following budget totals were approved: 1988-89 $7.8 million; 1989-90 $11.5 million; and 1990-91 $11.3 million.

These budgets include only the direct costs of purchasing hardware, software, the fees of external consultants, and the use of SCSD staff. They do not include all costs related to information systems (e.g. staffing, SCSD processing charges, and certain major leasing costs).

Audit Observations

Introduction – For the most part we received full and timely cooperation from departmental management. However, the completion of this phase of our review was affected by delays in obtaining certain information and supporting documentation. Project cost information and status reports in some cases were not readily available or provided to our staff.

As a result of the Information Resource Management Study completed in mid-1990 under the EDPAC's sponsorship, significant improvements were recommended, and plans have been formulated for their implementation. These include:

- assessing information system proposals against a number of criteria, including the Government's priorities;
- adopting one standard systems development methodology that will be used for all medium and large projects; and
- developing training courses for departmental management and staff involved in information system projects.

Our audit observations concerning the criteria previously noted are described in the following paragraphs.

Roles and responsibilities – The overall roles and responsibilities for the project management functions at the time of our survey were reasonably well defined and established.

Formal organization structures and resources existed for the management of all major system projects covered by our audit. Project manager and user management involvement varied depending on the size, complexity and status of the projects.

Timely, qualified and effective user department involvement in projects and the project management function is essential. In those situations where department staff do not have the background or time to effectively participate in a project, alternative resources must be identified and included in the project proposal.

Project management – The project management function of the 18 projects varied in terms of formality and process. Not all of the project plans we examined defined the specific project management structure and basic responsibilities of the various key project positions and other participants. Most of the projects surveyed had steering committees established. The larger projects had appointed project managers, sometimes external consultants.

In those situations where the project manager's role was assigned to an external consultant the monitoring and reporting tended to be more formalized and thorough.

The monitoring and reporting of status, including costs, varied among projects in terms of content and frequency. There is no required regular status reporting to the EDPAC, although there has been some ad hoc reporting and there is an annual EDP budget submission requirement.

We noted that the information system projects reviewed in the Departments of Attorney General, Solicitor General, Community Services, and Agriculture and Marketing had well defined project plans, more formalized and structured than certain other projects we reviewed.

Although we have specific comments on the original planning and cost estimates of the Human Resource Management System and the Computer-Assisted Mass Appraisal System, at the time of our review these two projects were well organized and managed.

For certain systems there have been project delays and problems, which had the planning and control of the projects been better, might have been fully or at least partially avoided. Three examples are noted.

1) The Department of Transportation and Communications in the late 1980's commenced the implementation of a new maintenance management system. An external consulting review, completed in the fall of 1989, identified a number of significant deficiencies in the system and the project, which resulted in a decision to suspend the project.

   A contract has recently been awarded for the redefinition of requirements for the system. In our view, had the project management function (including user department involvement) been fully effective, these deficiencies should have been detected and resolved much earlier. In excess of $900,000, about half of which was for hardware has been expended on this project. However, the hardware acquired is usable by Government.

2) In July 1989, the Department of Housing (in cooperation with the Government of Newfoundland and Labrador) commenced implementation of a new mortgage management information system for July 1991 completion. The software is being custom developed by an external consulting firm on a fixed fee basis. The hardware on which this system will operate has been acquired through the same firm.

   On the advice of SCSD and insistence of the EDPAC, a schedule for completion of key project deliverables was included in the contract with the consulting firm. However, once the project commenced the scheduled deliverables were not being met.

   Based on the information eventually provided us in early 1991, we noted deficiencies in the Department's planning, monitoring and control of the project. The project status was recently reviewed by the Department and a revised schedule developed for completion of the system.

3) The Department of Municipal Affairs has been implementing a new Computer-Assisted Mass Appraisal System (CAMA). This project was approved by the EDPAC in 1987, with plans to have it operational by 1989. Current plans have the project scheduled through to 1992, for the 1993 reassessment.

   At the time of our survey there was a formal project organization and management structure in place, and we found that project activities and costs are being closely monitored and reported.

Project costs – The decision to proceed with a new information system may be based on more than the net cost of the system. This notwithstanding, our review indicates that the project cost estimates used to justify and support the decision to proceed with certain new information system projects have on occasion been understated. For example, SCSD charges and internal department costs were not always fully included in project proposals.

All costs to the Province, (not just incremental costs) including those to operate the system after implementation, should be estimated prior to final project approval by the EDPAC. Significant system projects have been approved before their scope and the full estimated costs to complete them were adequately known. An October 18, 1990 memorandum from Management Board to departments indicates that such information will be required in the future.

The following comments are provided in this area on selected projects.

1) Human Resource Management System (HRMS) is an information system servicing all departments; and is the consolidation of a number of functions including personnel, payroll, establishment control, and applicant tracking. This project approved in 1985, to take two years, was extended to five years because of scope and implementation issues, and is now scheduled for completion in 1992. A phased approach to implementing the system is being used, and most of the major modules are in place.

   Information provided to us in February 1991 indicates that the cumulative costs for the HRMS project (including SCSD charges of over $2 million) to the end of the 1991-92 fiscal year will be approximately $3.9 million.

   It should be clearly understood that we are not in a position, at this time, to express an opinion on whether this project was adequately planned at the outset. We have not reviewed the original project plans and cost estimates used to support the decision to proceed with this system. This is because they were not readily available to us from the project team in the same manner as such information was for other projects we reviewed.

2) The Pension Administration System introduced by The Teachers' Pension Commission cost approximately $190,000 more than originally planned. Most of the additional expenditures relate to problems encountered in converting historical data to the new system. The Commission was aware of these problems, the costs of which were added to the annual budgets.

3) The original cost estimates of the CAMA project at the Department of Municipal Affairs did not include the costs of all resources required to implement the system. Large and predictable costs were not identified in the original estimate, such as project management, space cost, salaries and wages, and training and travel. Granted some of the internal costs may have been incurred even if the project were not undertaken. Information provided to us indicates that the revised estimate of all costs to complete the project is $6.3 million.

Security, control and audit considerations – The requirements in this area are not always being formally defined and considered in sufficient detail as part of the development and implementation of new systems. Certain project proposals have dealt with these areas in general terms, but not to the degree that would seem warranted.

The revised Government Systems Overview (Manual 302, Chapter 3 of the Province's Management Manuals) refers departments to the Canadian Institute of Chartered Accountants (CICA) "Computer Control Guidelines" as one reference source. In the absence of more specific guidelines or reference, we suggest the Province require all new systems meet the minimum control standards defined by the CICA, where practical.

For major new systems there should be an independent, objective monitoring and assessment throughout the project to ensure that basic or minimum security, control and audit specifications will be adequately met. This is a role which could be performed by qualified and experienced internal audit staff of the departments.

Assessment of project results – Our survey indicates that formal post-implementation reviews, to assess project results, and whether the new system meets the defined user requirements, are not planned for all projects. There are no policies or guidelines requiring that post-implementation reviews be completed and reports prepared on a timely basis.

Formal post-implementation reviews of completed projects (or at major milestone dates for larger information system projects) should be required. In addition, there should be a formal definition of the approach and structure for post-implementation reviews. Reports should be provided to the steering committees, senior department management, and the EDPAC on all completed projects.

It has been indicated the EDPAC will be requiring such formal reviews in the future.

Concluding Remarks

It is our conclusion that the project management function for the acquisition, development and implementation of information systems must be strengthened. There is general agreement by department management that improvements in project management are required, and much has been accomplished to date.

We acknowledge the EDPAC's initiatives to implement a standard systems development methodology, and strongly support this initiative. However, consid-

eration must be given to establishing a centralized project control, or quality assurance function, to monitor departmental project management activities on a timely and proactive basis. Also, to the extent practical, the new standard systems development methodology should be used on all information systems projects, not just medium and large ones.

In addition the following must be implemented to achieve an acceptable degree of control over the management of information system projects.

- No new information systems should receive final approval from the EDPAC unless the projects have been fully planned and all costs to the Province estimated.
- Ensure that all project and project management related responsibilities are assigned only to qualified staff or others with the background and experience required.
- The status and costs of projects must be consistently and fully reported to the steering committees, senior department management, and the EDPAC on a regular basis.

It should be recognized that only the first phase of our review of the project management function for new information systems has been completed and reported upon in this article. To reiterate, this article comments on the management of the projects, not the merits of the systems. There remain other issues to be pursued in the second phase.

Computer Related Audits
Human Resource Management System

Summary

The Human Resource Management System (HRMS) is a new information system which affects all departments. It represents the consolidation of four major functions – personnel, payroll, establishment control, and applicant tracking – previously performed through separate systems and procedures.

Objectives – We completed a review of two aspects of control over HRMS, the objectives of which were to assess:

- administrative controls over password access security; and
- controls over the interface between HRMS and the Province's general ledger system.

Findings and Conclusions – Our principal findings and conclusions were as follows.

- Deficiencies were identifed with the administrative controls over password access security, including:

  - need to more fully define and communicate formal user security policies;
  - unrestricted inquiry access to confidential employee information by some users; and
  - need for improvement in procedures for cancelling or changing the access privileges of terminating or transferring employees.

- The interface procedures between HRMS and the general ledger have resulted in significant postings to a suspense account, which were not always cleared on a timely basis. Also, departments were not being provided the necessary reports and information to easily reconcile their payroll expenditure accounts.

- Other concerns were identified which impact the overall adequacy of HRMS control, including:
  - adequacy of training provided;
  - lack of formal user manuals; and
  - audit or management trail deficiencies for employee costs allocated to more than one department.

We acknowledge that the various concerns regarding control and security, identified both by our audit and by others involved in the HRMS implementation have by and large been remedied or are in the process of being addressed.

Introduction

HRMS is an on-line database information system which affects all government departments. Development of the system began in 1987 and it is currently scheduled for completion in 1992. This system represents the consolidation of four major functions – personnel, payroll, establishment control, and applicant tracking – previously performed through separate systems and procedures.

The development and implementation of HRMS is one of the most significant information systems projects undertaken by the Province.

During 1990 we completed a review of two aspects of control over HRMS. We did not undertake a review of the total operation of HRMS, and accordingly did not assess the overall benefits of the system. The specific objectives of the assignment were to assess:

- administrative controls over password access security; and
- controls over the interface between HRMS and the Province's general ledger system.

In the implementation of this system, those responsible have undertaken independent reviews of control and security matters. This included a review by the Internal Audit Division of the Department of Finance.

Observations

This article describes our audit observations under three captions.

Password Access Security
HRMS Interface with the General Ledger
Other Concerns

Password Access Security – Our findings in this area were as follows.

- HRMS is a government-wide system which affects all departments. There are more than 300 system users. However, security policies for this system had not been fully defined and communicated to system users in a form which clearly enunciated user responsibilities.

  Although certain guidelines had been developed, there was a need for a detailed and comprehensive policy over password access security controls.

- A security weakness was brought to our attention which permitted some authorized HRMS users inquiry access to confidential information on all government employees. We informed the HRMS Project Manager of this weakness, and corrective action was taken. The weakness did not extend to the ability to change or update any information.

- Formal procedures needed to be improved to ensure access privileges were cancelled or changed on a timely basis for users terminating employment or transferring to another department. Subsequent to our fieldwork, action was taken to address this area.

HRMS Interface with the General Ledger – Our findings in this area were as follows.

- The HRMS and the Province's general ledger system are processed at the Provincial Data Centre and the Department of Finance respectively. A tape file of payroll transactions is generated by HRMS and input to Finance through an interface program.

  This program edits each transaction on the HRMS tape, prior to posting to the departmental expenditure accounts in the general ledger. Any of the HRMS transactions that fail the interface program edits are recorded in a suspense control file, and posted to a suspense account in the general ledger.

- Since the first phase of the HRMS implementation, April 1, 1989, the monthly charges to and balance of the suspense account have been significant. Although there is a procedure to clear the charges on a monthly basis, this has not always been possible due to other priorities. The

account was cleared at March 31, 1990. Also, the detailed transactions in the suspense file were not being reconciled to the suspense account balance in the general ledger.

The charges to suspense represent expenditures of departments which are not reported on departmental statements until the transactions are cleared from the suspense account. Accordingly, departmental expenditures reported monthly by Finance are understated by the uncleared balance of the suspense account.

Two significant factors contributed almost all the monthly charges in the 1990-91 fiscal year: conversion of the Department of Transportation and Communications accounting to the Department of Finance; and conversion of hourly and casual payroll data to HRMS.

At December 31, 1990 there was a balance of over $2.0 million in the account. However, the account will be cleared at March 31, 1991.

In our view the balance of the suspense account was too high during the year. Every effort must be made to accelerate the clearing of the account on a monthly basis.

- Several user departments were not able to easily reconcile their payroll expenditure accounts because they were not being provided the necessary reports and information. Subsequent to our fieldwork two new reports were developed to support a reconciliation process.

Other Concerns – During the assignment the following other HRMS related concerns were identified. Action has been taken or is planned for certain of these concerns. In our view, they should all be resolved as soon as practical.

- The process for receiving and approving transactions which update basic employee data is one which results in delays. This is because each transaction must be approved and fully processed before another one can be input. This short coming is recognized, and it is planned to be dealt with. However, it must be acknowledged that the HRMS provides both faster and more efficient processing of payroll and personnel transactions and a more comprehensive data base than previously.

- Several departments raised concerns about the nature and extent of training provided to HRMS users. Not all the defined objectives of the training program were achieved.

- Also, comprehensive training was not provided to department management to fully demonstrate how they could use HRMS. A comprehensive training course should be provided to address management's needs.

- User manuals had not been prepared for the personnel and payroll subsystems. These are necessary for training additional users, and they also act as a first point-of-reference when procedural problems are encountered.

We have been informed that these manuals have subsequently been prepared and released. There will be procedures to update the manuals as system changes are implemented.

- The management or audit trail for cross-department payroll expenditure postings, including individual contract consultants working for more than one department, was inadequate. Additional procedures and reports have been implemented.

Expenditures Under The Elections Act

Summary

Background – Under the Elections Act all expenses incurred during an election for the purposes of promoting or opposing the election of a candidate or the program or policy of a candidate or party are eligible for reimbursement. The Act also provides for expenses and costs associated with the administration of Electoral Districts.

During the year we conducted a review of the expenses incurred for the September 6, 1988 Provincial Election.

Objectives – The objectives of this assignment were to determine whether the expenditures incurred by the Province were proper and in accordance with the Elections Act and Regulations.

Findings and Conclusions – The principal findings and conclusions were as follows:

- Our overall conclusion was that expenditures incurred by the Province were proper and in accordance with the Elections Act.

- In many instances reports of candidates' expenses were not being filed by official agents by the deadline stipulated in the Elections Act.

- There were several instances where electoral districts were charged with the expenses of another district.

Introduction

The Elections Act is administered by the Speaker of the House, the Chief Electoral Officer, and the Election Commission.

The purpose of the Election Commission is to provide the Chief Electoral Officer with advice concerning the administrative conduct of elections.

The purpose of the Electoral Office is to provide a resource centre to supply election materials, make preparations for general and by-elections, and to monitor the terms and conditions of the Elections Act.

We examined candidates' expenses and the expenses of Electoral Offices to determine if they were in accordance with the terms and conditions stipulated in the Elections Act. The examination of candidates' expenses included ensuring that costs were properly reported, approved, and notarized on the prescribed forms. The examination of electoral office expenses included verifying the authorization, accuracy, and proper account classification of selected expenditures.

Party expenses are not reimbursable under the Elections Act. However, parties are subject to spending limits and reporting requirements imposed by the Act. We examined the "Reports of Recognized Party's Election Expenses" filed by the three recognized parties, to ensure that they did not exceed the limit allowed, and that they were properly prepared and notarized.

Our overall conclusion was that expenditures incurred were proper, and in accordance with the Elections Act and Regulations. However, we noted two areas where improvements were required.

Candidates' Non-Compliance with Legislation

The Elections Act defines the costs which candidates may claim and the reporting requirements for election expenses. Section 183(1) of the Act requires that each Official Agent deliver a report of expenses on the prescribed forms and that the forms be delivered to the Chief Electoral Officer within 120 days after the day fixed for the return of writs of election.

We were informed that there were many instances of forms not being delivered by the required deadline of December 19, 1988. We were also advised that the late filing of candidates' forms created problems and delays in finalizing the accounts and the Returns of General Election for the House of Assembly Report.

The lack of compliance with legislation may be caused by the fact that there is no incentive to file forms when a candidate is not eligible for reimbursement. Without incentives or penalities the only recourse available to the Chief Electoral Officer is contact with the candidate's agent.

Account Classification Errors

The election expenses incurred by the Province are recorded in the Department of Finance general ledger by staff of the Speaker's Office. Each expense is charged to a specific electoral district and also to an expense type within each electoral district.

We reviewed the expenses charged to 15 electoral districts, and found that seven districts had been charged with the expenses of another district (total $62,487). We also verified 40 invoices for authorization, accuracy, and proper general ledger account classification. We found that nine invoices (total $68,568) had been classified to the wrong expense type within an electoral district.

The errors were discussed with the Director of Administration for the Speaker's Office. The Office is aware of the errors and is currently making adjustments for presentation in the Public Accounts of the Province.

Audit Of Expenses

Members of the House of Assembly, Members of Executive Council, Deputy Ministers and Equivalents, Ministerial Assistants, and Judges of the Provincial Court

Summary

An audit of travel and other expenses of the above five groups was performed during the year.

Objectives – The objectives of the audit were to determine whether:

- expense claims were prepared in accordance with relevant legislation, regulations and guidelines; and
- the claims were reasonable and properly authorized and documented.

Findings and Conclusions – Our principal findings and conclusions were:

- Expense claims of all five groups were reasonable and in accordance with relevant legislation and other requirements.
- There were instances of expenses inadequately documented or explained. These were investigated and in all cases resulted in satisfactory documentation or explanation being provided, or recovery of excess claims being made.
- The travel expense claim form should be redesigned to provide for a more efficient and effective review of claims for both approval and audit purposes.

Introduction

In 1986 we performed an audit of travel and other expenses of Members of the Legislature, Members of Executive Council, Deputy Ministers and equivalents, ministerial assistants, and Judges of the Provincial Court for the period April 1, 1985 to March 31, 1986.

The objective of our audit of Members' expenses was to determine if claims were prepared in accordance with the provisions of the House of Assembly Act, the Executive Council Act and the related regulations. Our objective for the other four groups was to determine if claims were reasonable, properly authorized, adequately

documented, and in accordance with established guidelines. Our principal findings and conclusions from the 1986 audit were as follows:

- Existing Management Manual guidelines for Members of the Executive Council, Deputy Ministers and equivalents, ministerial assistants, and Judges of the Provincial Court were adequate in that they provided a clear definition of allowable expenses and documentation requirements.

- The review process at the Department of Finance, which covers all expense claims submitted for payment, was functioning satisfactorily.

- There were instances of questionable expenses, inadequate documentation or explanations, disclosed both by the staff reviews in the Speaker's Office and the Department of Finance, and by our audit. In all cases, a subsequent review resulted in satisfactory documentation or explanation being provided, or recovery received.

- Apart from these instances, we concluded that the original documentation and explanations submitted to support expense claims were adequate.

- The Statement of Travelling Expenses form, presently used by Ministers and public servants, does not require sufficient detail to facilitate its review for reasonableness by those approving or auditing it, and accordingly should be revised.

In summary, we concluded that the relevant regulations, guidelines and procedures were appropriate, documentation and explanations received were satisfactory, and the two review and approval processes were functioning properly. However, in view of the nature of expense claims, it was essential that the level of support documentation be maintained and, so as to ensure their reasonableness and compliance with authorities, that there be no relaxation of the monitoring of them.

In 1990 we again examined travel expenses and issued two reports – one to the Speaker of the House of Assembly regarding expenses of Members of the Legislature, and one addressed jointly to the Minister of Finance and the Chairman of Management Board concerning expenses of Ministers, Deputy Ministers and equivalents, ministerial assistants and Judges of the Provincial Court.

Members of the House of Assembly

Objective and Scope

The annual indemnities, allowances and expenses accruing to the Members of the House of Assembly are authorized under the House of Assembly Act, the Executive Council Act and the related regulations.

The objective of the audit was to determine whether the expense claims of the Members were prepared on a basis in accordance with the provisions of the House of Assembly Act, the Executive Council Act and the related regulations.

For the purpose of this assignment, we concerned ourselves with the travel, accommodation, per diem and constituency expenses that each Member of the

House was entitled to recover, for the period from January 1 to December 31, 1989. We reviewed a sample of claims of each member to determine if they were in accordance with provisions of the Acts and policy guidelines on members' indemnities, allowances, expenses and reimbursement as established by the Legislature Internal Economy Board for 1989.

The scope of our examination included a review of expense claims to determine whether there was compliance with guidelines in the following areas:

- constituency trips and living allowances for Outside Members of Executive Council;
- trips and expenses relating to sittings of the House and for constituency business for Other Outside Members; and
- constituency expenses for the provision of an office, equipment, meeting places, secretarial services and travel within the electoral district for all members.

In addition, we reviewed the new form used by members when submitting claims for reimbursement. We found that the new form enabled staff to more effectively monitor compliance with the applicable acts and regulations.

Conclusion

Actions taken by the Speaker and the Legislature Internal Economy Board to put in place an improved review and approval process, and disseminate information about the process to Members of the House, have together contributed to a satisfactory administration of the expense claim function for Members of the House.

Accordingly, it is our opinion based on our audit tests, that the expense claims of Members of the House of Assembly are reasonable, properly authorized, adequately documented, and in accordance with the provisions of the House of Assembly Act, the Executive Council Act and the related regulations. In addition, it is our opinion that the administration of this function by the Speaker's Office is being satisfactorily performed.

Members of the Executive Council, Deputy Ministers and Equivalents, Ministerial Assistants, and Judges of the Provincial Court

Objectives and Scope

Our Office also completed an audit of travel and other expenses of Members of the Executive Council, Deputy Ministers and equivalents, ministerial assistants, and Judges of the Provincial Court. This audit encompassed the period from April 1, 1988 to December 31, 1989.

Our objectives were to determine if the expense claims of these four groups were reasonable, properly authorized, adequately documented, and in accordance with the established guidelines in Government's Management Manuals.

The expense claims of all members of the four groups mentioned above were examined on a test basis. We expanded our tests in those situations where further testing was required.

Conclusions

It is our opinion that the majority of expense claims for members of these four groups are reasonable, properly authorized, adequately documented, and in accordance with established expense guidelines.

There were, however, as can be expected instances of inadequate documentation and explanation. In all cases, where there were deficiencies a follow-up with the individuals concerned was performed by officials of the Department of Finance. Satisfactory explanations and/or documentation were provided to us. In several cases amounts were recovered for non-allowable expenses that were inadvertently reimbursed to the claimants.

Accordingly, we recommended that there should be communication with these groups on a regular basis to remind them of their responsibility to comply with Management Manual Guidelines in their submissions of travel expense claims.

In our last report on the audit of travel expenses of December 1986, we stated that the travel expense form "Statement of Travelling Expenses" does not provide the information necessary to perform an adequate review for approval and subsequent audit purposes. This is due to the design of the Province's travel expense form which does not adequately segregate principal types of travel expenses.

It is again our recommendation that the travel expense form be revised. As a minimum, transportation, accommodations, meals and other expenses should be segregated to provide the basis for better approval and audit processes. Provision should be made to permit the recording on the travel expense form of those expenses paid directly so as to reflect in one place the total costs of a given trip.

Government-Wide Departmental Audit

Summary

Background – A new approach to our audits of departments was introduced in 1989, which resulted in the consolidation of most departmental audit efforts into one large audit assignment. The audit includes revenues and recoveries, current expenditures and capital expenditures. There are certain activities which, because of their importance and size, are audited on an annual basis apart from this government-wide audit.

Objectives – The audit is performed to meet the requirements of Section 8 of the Auditor General Act, and we examine for:

- the accuracy and completeness of accounting records;
- compliance with relevant legislation and policies; and
- the adequacy and proper operation of financial systems and controls.

Conclusions – The overall conclusion was that generally the accounting controls are adequate and are being complied with, and that staff are performing their accounting related duties well.

Many of the findings from this examination were typical of those from previous departmental audits such as: inadequate segregation of duties, inadequate verification of certain types of transactions, a lack of timely reconciliations, and instances of inadequate documentation.

Introduction

In last year's Annual Report there is described the revised approach our Office undertook for the auditing of government departments. Whereas in past years we audited different departments as separate assignments, our practice now is to combine our auditing of department revenues, expenses, control systems, and compliance with legislation in one major audit assignment.

Last year's government-wide departmental audit was the first such assignment conducted by our office and certain implementation problems were experienced, however, significant audit efficiencies did result from the project. Upon completion of last year's audit, our approach was carefully reviewed, and improvements were introduced for the current year's assignment.

The Audit Process

Audit Objectives – The general audit objective of the government-wide departmental audit is to obtain sufficient and appropriate audit evidence to support an opinion as to:

- the accuracy and completeness of accounting records;
- compliance with relevant legislation and policies; and
- the adequacy and proper operation of financial systems and controls.

To meet this objective we defined the following detailed audit goals:

- to verify that revenues and recoveries are complete, accurately stated, and disclosed in accordance with stated accounting policies;
- to verify that current and capital expenditures have occurred, are accurately stated, and are disclosed in accordance with stated accounting policies;

- to verify that revenues and recoveries have been collected, and expenditures made, in accordance with relevant legislation and policies;
- to verify that funds have been expended for the purposes for which they were appropriated; and
- to review financial systems and controls to ascertain their adequacy to ensure proper control over receipts, revenues and recoveries, purchases and disbursements, and capital assets.

Audit Scope – The audit consisted of a number of components, each addressing different audit goals. In order to ensure good audit coverage, and yet to provide for as efficient an audit as possible, some of the audit areas are examined cyclically. Other areas are addressed in each year's audit because they represent a large portion of the Province's total revenues and expenditures.

For 1989-90 about 96% of the Province's revenues were collected by the Department of Finance, and 80% of its recoveries were collected by three departments (Community Services, Health and Fitness, and Solicitor General). Because of this high concentration of revenues and recoveries in a few areas, they are examined each year.

Expenditures for payroll, current expenditures, and capital expenditures are audited on a government-wide basis. Accordingly, expenditures in these three areas will be subject to testing in all departments of government.

We have identified 32 divisions or programs in government departments that are significant for audit purposes, together comprising 84% of total current expenditures. It is our objective to examine each of these areas for compliance with legislation and policies over a four-year period. Five of them are considerably larger than the others, and accordingly will be reviewed annually. These five areas comprise 62% of total current expenditures in the following departments; Advanced Education and Job Training; Community Services; Education; Finance; and Health and Fitness.

Reviews of financial systems and controls will be performed in the central accounting and administrative division of each government department over the four-year cycle.

Audit Observations and Conclusions

In general, we concluded that the accounting records of the Province are complete and accurate. We reviewed various programs and other areas in eight departments for compliance with legislation and policies and found all but three to be complying as they should. Financial systems and controls were reviewed in seven departments and significant weaknesses were noted in three of these departments.

This year's audit resulted in numerous findings and recommendations that were reported to the departments concerned. Many of the findings were typical of the results of previous departmental audits:

- inadequate separation of incompatible accounting duties;
- Departmental Purchase Orders not being completed in the proper fashion;
- reconciliations of various kinds not being performed on a timely basis, or not being done at all; and
- inadequate control over the receiving of revenues.

There were several audit observations which warrant reporting. In all cases the departments concerned have been advised of our audit findings, and have been provided with recommendations from our office suggesting corrective action. We shall be performing follow-up reviews in all cases in the 1991 audit year to determine whether the deficiencies have been corrected.

- Incorrect calculation of semi-annual interest payments on a debt issue (Department of Finance).
- Proof of Age is not always obtained before processing Family Benefits payments, as is required by Department regulations (Department of Community Services).
- Reapplicants for Family Benefits payments are not always required to sign an updated Client Personal and Financial Statement, as stipulated by Department policy (Department of Community Services).
- Due to changes in Department operations, sections of the Sheriffs Act and the Cost and Fees Act are out of date, and accordingly no longer being complied with (Department of Attorney General).
- An unacceptable number of data input errors relating to Canada Student Loans and Nova Scotia Student Bursaries (Department of Advanced Education and Job Training).
- Time reports prepared by casual employees are not always being approved by their supervisor before the employees are paid for their work (Department of Consumer Affairs).
- Inadequate separation of incompatible accounting duties in the revenue and cash receiving functions (Department of Environment).
- Numerical control over cash receipt forms is not possible because these forms are not prenumbered (Department of Environment).
- No reconciliation of license revenues to licenses issued (Department of Fisheries).
- The Department collects royalties on the harvesting of sea plants, based on the tonnage harvested, but they do not receive any evidence supporting the weight of the harvest and have no procedures to determine the reasonableness of royalties received (Department of Fisheries).
- Departmental Purchase Orders are not always being used as they should for purchases under $200 (Department of Fisheries).

- The Department destroys all supporting documentation for claims for assistance under the Mainstreet Program after it has been reviewed for eligibility and accuracy. Documentation resubmitted to the Department for the purposes of our audit had numerous instances of clerical errors, and did not fully support the claims for assistance submitted earlier.

  Last year we had a similar type of observation relating to the Provincial Employment Program. Applications for employment were not on file for a significant number of persons hired (Department of Small Business Development).

- Procedures for the proper control of department furniture and office equipment need improvement (Department of Transportation and Communications).

Certain of the weaknesses outlined above are reported in the article "Reservation of Opinion", page 203.

Department of Lands and Forests
Land Services Branch

Summary

Background – During 1990 we performed an audit of the Land Services Branch of the Department of Lands and Forests. The focus of this assignment was on certain aspects of the operation of the Provincial Crown Lands Record Centre; the adequacy of Crown land surveys; and a review of land acquisition and disposal policies and practices.

Objectives – Our major objectives were to assess whether:

- information is adequately protected and access is limited to autho-rized users;
- operations are carried out in an efficient manner, and purchases are made with due regard for economy;
- the objectives laid down by Department management and certain other departments and agencies are achieved; and
- the Department complies with relevant legislation and policies.

An audit with similar objectives regarding land acquisitions and disposals was also carried out in the Department of Transportation and Communications, see page 188.

Findings and Conclusions – The following summarizes our findings and conclusions.

- There were significant weaknesses observed in the protection of Record Centre information and the security over access to it.

- Management procedures and controls should be strengthened to ensure a greater efficiency of operation in the Crown Lands Surveys Division.

- The Land Services Branch has adequate systems and procedures to ensure that the objectives are achieved, except for boundary line maintenance.

- Our review of land transaction files indicated adequate documentation and approvals, as well as management reporting and monitoring of land transactions.

Introduction

The Land Services Branch of the Department of Lands and Forests is responsible for:

- the acquisition, disposal and administration of Crown lands (excluding land administered by the Department of Transportation and Communications, and the Nova Scotia Power Corporation);
- the establishment and maintenance of surveyed boundary lines on Crown lands;
- the provision of survey and mapping services to the Department, as well as other Provincial departments; and
- the maintenance of detailed records and documentation for all land owned by the Province.

The Land Services Branch had ordinary and capital expenditures of $6.2 million for 1989-90, and $6.2 million for 1988-89. The Province owns approximately 3 million acres of Crown Land.

A purchase of land from George Eddy Company Limited in 1989-90 is not reflected in the above figures. This involved the acquisition of 123,000 acres of forest and recreation lands for approximately $31 million.

The audit covered the period April 1, 1987 to January 31, 1990, for land acquisitions and disposals; the period from April 1, 1988 to January 31, 1990, for the Record Centre and Crown Land Surveys operations.

Provincial Crown Lands Record Centre

The objectives of our review of this area were to assess the protection of Crown lands information, and the security over access to sensitive Record Centre information. To perform this assessment, we used five criteria relating to physical protection of information and systems, access to the information, and physical controls over this access.

Our review indicated:

- that environmental conditions within the vaults were not satisfactory for the protection of records;
- there was no documented disaster recovery and contingency plan in the event of an unexpected interruption of service;
- there was no off-site back-up of vital land information; and
- there was a need for improvements in other control and security matters.

Since the time of our audit, the Department has undertaken steps to introduce disaster recovery and contingency plans, as well as off-site storage for back-up information.

Crown Land Surveys

The objectives of our review of this area were to assess the adequacy of:

- project staffing, monitoring and control to ensure efficiency of surveying work;
- staff qualifications and training;
- management reporting, and control over result indicators; and
- the strategic plan for boundary maintenance and establishment of new boundaries.

It is our opinion that:

- project staffing and monitoring are adequate, but the controls over the surveying work could be improved by the introduction of better estimating and time budgeting procedures, and a more extensive use of job cost sheets;
- staff qualifications and training appear adequate;
- management reporting, and control over the accuracy and completeness of result indicators appear adequate; and
- although strategic planning for the establishment of new boundaries has been performed, improvements are needed in the frequency of boundary maintenance.

The Department has indicated that our recommendations in this area are appropriate and that they will make efforts to implement them.

Land Acquisitions and Disposals

The Land Services Branch of the Department has responsibility for land acquisitions and disposals. In 1989-90 they planned ten purchases, nine trades, four expropriations, and the disposal of 500 acres of Crown land. As well, a special acquisition of about 123,000 acres of forest and recreation land for approximately $31 million was made during the year.

The objectives of our review in this area were to assess whether:

- the policies and procedures for land acquisition are adequate to ensure that land is purchased, expropriated, or transferred at reasonable prices, and only land that has an appropriate use to the government is acquired;
- the policies and procedures for the land disposal function are adequate to ensure that the disposal values are fair, and the reasons for disposal are appropriate;
- future land needs of the Province are determined and adequately monitored in accordance with the strategic plan;
- adequate legal and accountability documentation is maintained for each Crown land transaction; and
- the criteria and practices for the selection of lawyers and appraisers used for land transactions are reasonable.

Our review included an examination of 28 land acquisition files, 11 trades and 19 disposals. We found each file contained current appraisals, documentation of an appropriate need for the land or reason for the sale, a signed offer and acceptance, a knowledge of the future use of the land sold, deeds, plot plans, and evidence of legal searches.

Additional observations based upon our review are that:

- there are certain inadequacies in the procedures to ensure land owners understand their rights under the Expropriation Act;
- not all land transactions are recorded on the Record Centre maps on a timely basis;
- strategic planning is conducted to provide for the future land needs of the Province;
- management reporting and monitoring of land transactions are adequate; and
- the criteria and practices used to select lawyers and appraisers for land transactions are adequate.

We were able to conclude that:

- policies and procedures are adequate to ensure land is purchased, expropriated, or transferred at reasonable prices, and only land that has an appropriate use to the government is acquired;
- policies and procedures are adequate to ensure land is disposed of for reasonable amounts and for appropriate reasons; and
- adequate legal and accountability documentation is maintained for each Crown land transaction.

Our audit of land acquisitions by the Department included a review of the George Eddy Company Limited lands expropriation. The Department became aware that these lands were being considered for disposal in the latter part of 1988. The

negotiation process, which included an initial offer by the company, commenced in July of 1989 and the purchase transaction was concluded before the end of 1989.

The Department engaged the services of a forestry consulting firm, and all appraisal reports and fibre inventories of the company were reviewed in detail by the consultants. Although the transaction began as an outright land purchase, it eventually took the form of an expropriation to ensure that the Crown was acquiring good title to the land.

In our opinion, the process and controls used by the Department in the acquisition of these lands were reasonable, considering the time constraints under which negotiations were conducted. All relevant legislation was complied with. We do not express an opinion concerning the value of the land or the fairness of the agreed upon total price. The scope of our review and the level of our expertise does not permit us to offer an opinion on these matters.

Municipal Affairs
Property Assessment Function

Summary

In 1990 we performed a review of the property assessment function performed by the Assessment Division of the Department of Municipal Affairs.

Objectives – The objectives of this assignment were to determine whether:

- assessments are calculated using recognized methodologies;
- controls are adequate to ensure the reasonableness, completeness and timely release of the assessment rolls;
- there is an appropriate process for the appeal of assessments;
- there are adequate procedures to plan and control workload; and
- appropriate qualification and training standards have been established.

Findings and Conclusions – Our overall conclusion is that the property assessment function is satisfactorily managed and controlled. Other findings and conclusions from this assignment are as follows.

- There are adequate policies and procedures for developing reasonable and properly documented assessment values, using recognized approaches and methodologies.

- Business occupancy assessments consume considerable resources of the Division. These assessments also result in a tax which has proved difficult for the municipalities to administer and collect. We have recommended that the Division meet with the municipalities to seek ways to resolve the problems associated with the administration and collection of this tax.

- Controls are in place to ensure the reasonableness and completeness of the assessment roll. However, the Division is dependent upon outside agencies to provide it with information such as building permits and deed transfers that can initiate changes to the assessed value of a property. The Division has no way of ensuring that it has received all necessary documentation.

- The Division has undertaken some commendable internal audit initiatives. In particular, the Division has created the position of Operations Officer (Internal Audit). This position is responsible for the conduct and review of various internal audits, and reports directly to the Director of Assessment. An external audit is also conducted annually on various internal control procedures. However, certain aspects of the audit function, both internal and external, require a re-examination of their purpose.

- The appeal process is adequate and ratepayers have ample opportunity to appeal their assessments. However, there appears to be an excessive number of steps and organizations involved. We have recommended that the Division consider simplifying the administrative structure of the appeal system.

- The Division has adequate procedures to plan and control its workload, and appropriate qualification and training standards have been established for those who perform assessments.

- We met with senior officials of the cities of Halifax and Dartmouth to obtain their views on the assessment process. They expressed some concerns which are tabulated in the body of this article. We did not investigate these concerns in any depth as they fell outside the scope of this assignment. However, we feel that it would be beneficial to both the Department and the municipalities to meet and discuss these issues.

Introduction

The Department of Municipal Affairs is responsible for the general supervision of municipal affairs in the Province of Nova Scotia. Prior to 1976 the assessment of property was a municipal function. The role of the Province was primarily an advisory one through representation on regional assessment committees. But in 1976 the Province assumed responsibility for the assessment function.

The Assessment Division, one of four divisions of the Department, is organized into fifteen regional offices located throughout the Province, with its head office in Halifax. The primary responsibility of this Division is to prepare the assessment rolls which forms the basis for municipal property taxation.

The operations of the Assessment Division can be broadly categorized into the following five functions.

Assessment Process
Management Information Systems
Human Resource Management
Public Relations
Finance and Budgeting

Selected areas of the Assessment Process, Management Information Systems, Human Resource Management and the related internal controls, were reviewed during this assignment. We did not include matters concerning Public Relations, and Finance and Budgeting in the scope of our review.

The Assessment Division is responsible for determining the assessed value of property specified in the Assessment Act. The Act describes the types of property that require valuation and also provides a definition of assessable property for municipal property taxation purposes.

In the years since assuming responsibility for the assessment function, the Division has undertaken a number of significant initiatives to improve the integrity of the function. The primary initiative has been the implementation of the computerized assessment system (OASIS) which was acquired in 1987. OASIS is a complete property appraisal and tax administration system. This system makes computer assisted mass appraisal possible. Two modules or components of the OASIS system being implemented are the *Administative Tax Roll System* and the *Appraisal and Analysis System*.

The Administrative Tax Roll System provides parcel location and identification, maintains data on property ownership and records assessment data. The Appraisal and Analysis System is used to assist in the calculation of the appraised value of residential property.

Our findings and observations are reported in the body of this article under the following headings.

Assessment Process
System of Internal Control
Appeal Process
Workload Planning and Control
Qualification and Training Standards

For each of these areas, specific audit objectives and criteria were developed. Our approach was based on interviews conducted at Head Office and at the Halifax City and Lunenburg Regional Offices. We reviewed various reports, manuals and documents. We also had discussions with senior officials of the cities of Halifax and Dartmouth.

Assessment Process

The Assessment Division is responsible for the assessment of property defined in the Assessment Act. The major types of property are residential, commercial, and resource. In addition, the occupants of commercial buildings are assessed a business occupancy tax.

There are three recognized methods of estimating property market values: cost, sales, and income approaches. The cost approach involves estimating the cost of constructing an identical or similar structure. The sales approach is a method of estimating market values by analyzing the sale prices of comparable properties. The income approach is used to value income producing properties such as rental buildings, hotels, and shopping centres. This requires the determination of the present value of the net income produced by a property over its remaining economic life.

Business occupancy assessments are calculated using one of two methods. If the building is assessed using the cost method, the assessed value of the building is allocated to the tenants and/or owner on the basis of square footage occupied. Business occupancy assessments for income-producing properties are allocated to tenants based on their portion of rent to the total market rent of the building.

Objectives

Our objectives with regard to the assessment process were to determine if there were documented policies and procedures in all critical areas, and whether recognized uniform approaches and methodologies are used to calculate assessments.

Observations and Conclusions

Our principal conclusion is that the Assessment Division has adequate policies and procedures to develop reasonable and properly documented assessment values, using recognized approaches and methodologies.

There are problems associated with the administration of Business Occupancy Assessments. Businesses may open, close or relocate without informing the Division. In addition to consuming considerable resources of the Division, these assessments also result in a tax which has proved difficult for the municipalities to administer and collect. We have recommended that the Division meet with the municipalities to seek ways to resolve the problems associated with the administration and collection of this tax.

Many of the policies, procedures and practices are documented in a variety of areas such as management directives, a draft policies and procedures manual, and training and course material. We have recommended that the Division consolidate its policies, procedures, and practices in a Policy and Procedure manual as soon as feasible, recognizing that they presently have other pressing priorities, especially the implementation of OASIS.

In particular there is a need to document policies and procedures to define when residential and commercial property inspections should be performed.

Sales investigations had not been conducted at two regional offices since the fall of 1989. The data collected from sales investigations enables statistical analyses on various aspects of assessment. We believe that sales investigations should receive a higher priority.

In addition, we reviewed several other areas relating to the assessment process, and made suggestions for improvements to the Department. These were residential assessments, commercial assessments, depreciation, assessment of land, assessment of income producing properties, and manufacturing and processing equipment assessments.

Discussions with Municipalities

We met with senior officials of the cities of Halifax and Dartmouth to obtain their views on the assessment process. Their major concerns are summarized as follows:

- both municipalities are experiencing higher than anticipated levels of successful appeals which lessen their confidence in both the assessment and appeal systems;
- the appeal process requires streamlining to improve the time taken to process appeals;
- business occupancy assessments are not issued on a timely basis; and
- although a good working relationship exists between senior members of the Division and municipal staff, improved communciations at lower levels would be beneficial.

We did not investigate these concerns in depth as they fell outside the scope of this assignment. However, we believe it would be beneficial to both the Division and the municipalities for the above concerns to be discussed and addressed.

System of Internal Control

Assessment values are revised as information is received by the Division. Information is obtained from reports generated internally such as questionnaires and sales investigations, and from external sources such as building permits and subdivision plans. It is important that there be adequate systems of control to ensure that this information is received in a complete and timely manner and that it is properly processed.

The Division is presently implementing two components of the computerized assessment system, OASIS. The Administrative Tax Roll System, from which the assessment roll is generated, is operating in all regional offices. The Appraisal and Analysis System, which is used to assist in the appraisal of property, is presently being implemented. Two regional offices are fully operational, nine others are at various stages of implementation, and four are still operating under the manual system.

Therefore, the procedures and forms used to record assessment data, calculate assessed values, and update the roll vary, depending on whether the regional office operates on the manual or the Appraisal and Analysis System.

Objectives

Our objectives in this area were to determine whether there were adequate systems of control in place to ensure that information is received in a complete and timely manner and that it is properly processed.

Observations and Conclusions

In our opinion the Division has an adequate internal control system in place to ensure the completeness and reasonableness of the assessment roll. However, it should be noted that the Division is dependent upon outside agencies to supply it with the information that generates changes to the assessed value of a property (e.g. building permits, deed transfers, subdivision plans, etc). The Division has no way of ensuring that it has received all documentation.

Income and expense questionnaires are sent to the owners of income-producing properties to assist in the determination of assessed values. We were generally satisfied with the system, but noted certain administrative difficulties. Many returned questionnaires include unnecessary or incomplete information. This problem might be eliminated if the questionnaire was redesigned and accompanied by more precise instructions.

The Division has undertaken some commendable internal audit initiatives. In particular the Division has created the position of Operations Officer (Internal Audit). This position is responsible for the conduct and review of various internal audits and reports directly to the Director of Assessment.

An external accounting firm annually conducts a review of certain internal controls in accordance with the terms of an engagement letter. It is our contention that the role of the external accounting firm should be reconsidered because certain of the work they perform could be handled in-house at a lesser cost.

Appeal Process

The Assessment Act provides for various levels of appeal by the ratepayer. The steps in the process may be summarized as follows.

- Ratepayers' concerns are reviewed by the Assessment Division which inspects properties internally and externally, and reviews all information pertaining to the valuation of the property. A detailed review of the assessment calculations is performed and the assessment is compared to similar properties.

- If a ratepayer is not satisfied with the decision, it may be appealed to the Regional Assessment Appeal Court. Assessment Appeal Court judges examine the evidence presented by both the ratepayer and the Division, and render a decision.

- Either party may then appeal to the Municipal Board which is a three-member, quasi-judicial body established pursuant to the Municipal Board Act. The Municipal Board reviews the evidence presented by both parties and renders a decision.

- If either party is still not satisfied, an appeal to the Supreme Court of Nova Scotia can be made on points of law only.

Objectives

The objectives of our review of this area were to determine whether:

- an adequate appeal process is in place;
- Appeal Court personnel have proper qualifications and training; and
- the Assessment Division has procedures in place to act upon court decisions.

Observations and Conclusions

Our overall conclusion is that the appeal process is more than adequate, and ratepayers have ample opportunity to appeal their assessments. The Division appears to take appropriate action as a result of court decisions.

The appeal system is a Province-wide system of Regional Assessment Appeal Courts. We recognize that it is important that ratepayers have an opportunity to appeal assessments. However, in our opinion, there appears to be an excessive number of steps and organizations involved.

Accordingly, it is our recommendation that the Division consider a simplification of the appeal structure to reduce the number of stages of appeal. This should simplify administration of the process, be more economical, yet retain ample opportunity for ratepayers' appeals.

There are a significant number of ratepayers who do not show up for Appeal Court hearings resulting in unnecessary expenses incurred by the Division in preparing for the hearings. We recommended that the Division consider imposing a nominal deposit which would be forfeited by those failing to attend hearings.

One guideline used to measure the integrity of the assessment system is that net changes to assessment values as a result of appeals should not exceed 1% of total assessed value. Two of the five Provinces that were surveyed used this standard while one used a higher standard.

In the 1987 and 1990 reassessment years approximately 20,000 assessment accounts, which represent 4% of all accounts, have been appealed. Reductions in assessment values as a result of appeals have reached as high as 2.5% of total assessed value in certain municipalities. However, from 1987 to 1990 these reductions have averaged less than 1% of the total Provincial assessment.

Workload Planning and Control

The Assessment Division has a staff complement of 206. The assessment process is labour intensive, with an annual budget in excess of $10 million. Appropriate workload planning and control is necessary to ensure that the Division is

fulfilling its legislative responsibilities under the Assessment Act in an efficient and cost-effective manner. Accordingly, we reviewed the area of workload planning and control.

Our objective was to determine whether the Division has adequate policies and procedures to plan and control workload and staff resources.

We found that the Assessment Division has a good system for workload planning and control. Both Head Office and Regional Office personnel have recognized the need for appropriate workload planning and control, and have implemented policies and procedures to achieve this.

There were variances in workload standards among regions. Although management is convinced that these variances are largely due to justifiable operating reasons, a study has never been conducted to verify the causes. In addition, we have suggested that the Division review staff complement and staff mix at regional offices to determine whether current staffing is appropriate.

Qualification and Training Standards

Properly qualified and trained staff are required to perform assessments. Accordingly, there should be qualification standards established for the various tasks performed and appropriate training programs should be available for assessors.

The objectives of our work in this area were to determine how well the Assessment Division has addressed the requirement for proper staff qualifications and training standards, and to determine if there was a performance appraisal system to monitor and evaluate job performance and educational progress.

Our overall conclusion is that the Division's qualification and training standards are adequate.

There is a formal education program on property appraisal which is mandatory for student assessors. Continuing education programs are made available to assessment staff.

The performance appraisal system includes the evaluation of assessors work performance against the position accountabilities contained in the formal job descriptions. The evaluation process also includes a review of assessors progress through continuing education and training programs.

Payments to Consultants

Summary

Background– Extensive use of consultants' services is made by Government, the cost of which totalled $55 million over the last two fiscal years. Our Office reviewed 44 consulting projects in 13 departments, during which we assessed the management of consulting engagements in five areas.

Objectives – The objectives of this government-wide assignment were:

- to determine and assess the management policies and procedures used for the controlling of consulting services; and
- to determine if the policies and procedures described operated effectively during the period under review.

Findings and Conclusions – For each of the five areas we have the following to report.

- Consultant Selection – In most cases competitive proposals are obtained from more than one firm or individual before selecting a consultant. In two departments we noted this was not always done.
- Use of Contracts – In the majority of cases we examined the contracts used were, in our opinion, appropriate. Five cases of significant consulting arrangements without contracts are noted.
- Monitoring of Performance – In all cases examined, there was an adequate degree of monitoring during the course of the consulting assignment.
- Control over Payments – In four departments we found instances where the detail on consultants' invoices was inadequate for management's review for payment approval to be meaningful.
- Evaluation of Performance – Most of the departments do not perform formal post-completion evaluations of the work of consultants.

In addition, this article contains:

- suggestions for the assumption by Management Board of a greater role in the control of consulting arrangements in Government; and
- a more extensive description of our audit findings, conclusions and recommendations relating to three specific arrangements in which we found:
  - inadequate monitoring of payments to workers' counsellors for services provided to individuals appealing Workers' Compensation settlements;
  - a contract for the project management of a large computerized information system which, in our opinion, was not properly administered in certain respects; and
  - arrangements for consulting services relating to communication projects which have deficiencies in their implementation.

Introduction

In 1990 this Office conducted a review of payments to consultants throughout government. For purposes of this audit, a consultant was defined as any provider of consulting or professional services, whether a company, an unincorporated group, or an individual.

The Government uses the services of consultants extensively. These services are provided by accountants, architects, computer consultants, lawyers, management advisors, and others.

There are approximately 40 accounts in the Province's general ledger for Professional Services. In 1989-90 about $29 million was paid to consultants, compared to $26 million the previous year. Also, included under Professional Services are payments to the Federal Government for RCMP services, which we did not consider as consulting services for this audit. These payments to the RCMP were $33 million in 1989-90, and $30 million in 1988-89.

Objectives

The objectives of this government-wide assignment were:

- to determine and assess the management policies and procedures used for the controlling of consulting services; and
- to determine if the policies and procedures described operated effectively during the period under review.

Audit Scope and Approach

Based on our analysis of payments to consultants, 13 government departments were selected for our audit. In total, 44 projects with an approximate value of $5.9 million were examined. The consultants involved in these projects included individuals hired on a contract employment basis, as well as outside consulting companies and firms. Eleven of the projects involved computer information systems. We had meetings with the staff of Management Board and the Department of Finance to determine their roles in the control of consulting services purchased by other departments.

The practices followed by the departments were reviewed to determine whether they comply with the policies prescribed in the Government of Nova Scotia Management Manuals.

For this audit we developed criteria to assess the management of consulting services in five areas. The results of our review are described under the following captions.

Consultant Selection
Use of Contracts
Monitoring of Performance
Control over Payments
Evaluation of Performance
Management Board
Specific Cases

Consultant Selection

We reviewed the policies and practices used for the selection of consultants, to determine whether the process results in the selection of qualified and competitively priced firms or individuals.

We found that in most cases departments obtain competitive proposals from more than one firm or individual before selecting a consultant.

In certain cases where consultants are used frequently for assignments that are difficult to define in terms of scope and cost, departments will maintain a roster of eligible firms and select from the roster. However, in each of the departments we visited that select professionals in this manner, we noted there were no defined criteria for selecting from the roster, and that the reason for a choice usually was not documented and approved.

In two departments, consultants were selected without obtaining competitive proposals or using a roster of eligible firms. The consultants were engaged for the following projects:

- Actuarial consulting for the Teachers' Pension Commission; Achievement Testing Services; and School Board Funding Formula (Department of Education); and
- Review of Maintenance Management System; and Cable Television Attitudes Survey (Department of Transportation and Communications).

Use of Contracts

We reviewed each project to determine whether contracts were used and if so, whether the terms and conditions of the contract were adequate to protect the Government in its dealings with the consultants.

In the majority of the cases examined, the contracts were written by legal professionals employed by the Government, and in our opinion contained appropriate terms and conditions.

However, four departments and one agency did not use a contract for significant consulting arrangements. Three of the instances are described below, while two are discussed in more detail under "Specific Cases" on page 172.

- The Department of Transportation and Communications did not use a contract for two projects reviewed (review of its Maintenance Management System, and the design of a highway underpass).

- The Teachers' Pension Commission has never used a contract for any of the assignments awarded to its pension actuaries.

- The Department of Community Services does not have a current contract with the computer consulting company that has performed millions of dollars of work since 1976. A contract was prepared at the inception of this assignment, but it only covered the first year of the assignment.

Moreover, we found, in all departments we reviewed, that no policies exist to deal with the use of a consultant who may be in a conflict of interest position with the department.

Monitoring of Performance

We reviewed each project to determine if the work of the consultants was adequately monitored. We found in all cases an appropriate level of monitoring, usually consisting of regular meetings with the consultants, written progress reports by the consultants and/or draft reporting of consultants' observations.

Control over Payments

The audit assessed the control over payments to consultants, and included a review of the following:

- extent of detail supporting billings submitted by consultants;
- adequacy of checking and approval procedures for payment of invoices;
- compliance with terms of the contracts; and
- proper recording of payments in the accounting records.

In four departments there were instances of inadequate detail on consultants' invoices and therefore managements' review and approval could not be meaningful. The invoices did not indicate hours, billing rates, nor the persons performing the work.

At the Department of Labour, in our examination of payments to workers' counsellors for services provided to claimants appealing Workers' Compensation settlements, we found serious deficiencies in the review and approval responsibilities and procedures. The results of this segment of our audit are described in more detail on page 172 of this article.

Evaluation of Performance

Most of the departments do not perform formal post-completion evaluations on the performance of consultants. Consequently, if a department considers using a specific consultant on a later assignment, it will not have available for reference a formal evaluation of previous performance.

Management Board

Discussions were held with staff members of Management Board, and a review of the Government of Nova Scotia Management Manuals was performed.

In our opinion, Management Board should assume a greater role in the controlling of consulting arrangements in the government.

- Most government departments do not have specific policies governing the use of consultants. There is a need for more comprehensive government-wide policies on the use and control of consulting services in areas such as: tendering and proposal requests; contracts; conflict of interest; invoice approvals; and evaluation of performance.

- The Management Manuals require that consulting services not be used when the work could be done by departmental staff. However, Management Board does not require departments to support requests for consulting services in a manner which would permit an assessment of this requirement.

- There are situations, as described previously, where it is appropriate to select consultants from a roster as opposed to conducting a competitive proposal process for each assignment. Management Board should periodically review and approve the use of roster selection methods by departments.

- Management Board should require departments to perform performance evaluations. This will aid other departments when they are proposing to contract consultants previously used within government.

Specific Cases

There were three situations which warrant a more extensive description of our audit findings and conclusions. Each is described in the following paragraphs.

Workers' Counsellors' Billings – We reviewed the procedures used to process payments to workers' counsellors for services provided to individuals appealing Workers' Compensation settlements. For 1989-90 payments to the counsellors amounted to $1.7 million. The Department of Labour provides certain administrative support to the Workers' Counsellors' program and staff are located with the Department. However, expenditures for the program are included, as part of the costs of the Province's support for Workers' Compensation, in the annual vote for Public Service rather than the Department of Labour. Our observations and recommendations are dealt with under four headings.

Approval of Invoices – Invoices are checked to ensure mathematically accuracy, and that total billings for a single case do not exceed the $1,200 limit, plus any extensions granted. Invoices were not checked for reasonableness because, until recently, the invoice usually did not indicate the hours worked, rates charged, or a breakdown between the services of lawyers and para-legals. In September 1990 the

Minister announced that all workers' counsellors must indicate on their invoices the hourly charge, the number of hours worked and the services provided. Our review indicates that this requirement is being fulfilled.

It is our recommendation that workers' counsellors' invoices be reviewed for reasonableness, and that the counsellors be required to send a copy of their invoices to the claimant being represented.

Billing Rates – In the determination of the $1,200 limit noted above, workers' counsellors' fees are restricted to $40 per hour and para-legal services to $35 per hour. Two law firms appear to have billed para-legal services at the $40 limit. In virtually all of the invoices examined, the total bill was a fraction or multiple of the $40 rate, indicating that para-legal services were likely billed at the lawyer rate. In our opinion, there is a reasonable doubt concerning workers' counsellors past compliance with the hourly billing rates limits. This is a problem that seems to have been overcome by the requirement for more detail on counsellors' invoices.

It is our recommendation that a sample of workers' counsellors' invoices paid during the last few years be reviewed. If there is evidence of significant overpayments, adjustments to billings should be negotiated with the non-complying law firms.

Reasonableness of Invoices – There are no written policies or job description that assigns to the Chief Workers' Counsellor the responsibility of reviewing workers' counsellors' invoices for reasonableness. There have been allegations that the billings of one workers' counsellor were not reasonable. A House Order dated May 11, 1990 resulted in an analysis of billings and case loads for all counsellors for the March 31, 1990 fiscal year being provided to the House.

Our review resulted in the following summary:

Fees Paid to Counsellors by Law Firm

	Highest	Next Highest	Average
Total fees paid	$310,873	$239,331	$74,457
Fees per claim	606	551	317
Disbursements per claim	284	202	112
Hours per claim	15hrs	14hrs	7hrs
Claims extended	42%	40%	15%

It should be understood that our review did not result in an opinion on whether any of these charges were improper and unreasonable because this is a matter for legal opinion. However, in light of our analysis of the billings and case loads of the workers' counsellors, it is our recommendation that billings from counsellors that deviate significantly from the average be subject to a careful examination for reasonableness. Otherwise, payments could be made for services not provided, or charged at rates that exceed the approved limits.

Claim Extensions – If the circumstances of a case change, or if a counsellor's costs and fees exceed the limit for any other reason, counsellors are allowed to request an extension beyond the $1,200 limit. Extensions are common and 601

extensions were granted in 1989-90 representing 15% of active claimants. For the two workers' counsellors with the highest billings in 1989-90, about 40% of their cases had extensions.

There are no formal criteria for determining when an extension should be granted. Each case is considered based upon whatever support a workers' counsellor gives for the extension. The requests for extensions often do not describe any unusual circumstances affecting the case. They simply state that their costs and fees have exceeded the limit.

It is our recommendation that formal criteria be established for assessing the reasonableness of requests for extensions. Counsellors should adequately support their requests for extensions. Reports and other evidence used to support a request should be reviewed.

There has been acceptance of our recommendation that a more extensive review of workers' counsellors' invoices be instituted to include an assessment of their reasonableness. The magnitude of the program, about 4,000 claims costing $1.7 million, will require the application of additional resources to the review function and attempts are being made to obtain these resources.

Department of Municipal Affairs – A contract for the project management of the implementation of the Computer-Assisted Mass Appraisal System had features relating to both its awarding and subsequent revisions which warrant a commentary. The project is one associated with the implementation of an estimated $6.3 million computerized information system for the Assessment Division of the Department.

We noted that the consultants were selected as a result of a formal competitive proposal process, including detailed evaluation and rating of the proposals received. The assignment was controlled by a formal contract, and appropriate approvals were obtained. The consultants were closely monitored. The Project Manager selected became a member of the project's steering committee, and was responsible for reporting progress and problems to the committee.

More specific observations relating to this contract are described in the following paragraphs.

- The request for proposal distributed by the Department of Government Services guaranteed a minimum of 150 days of consulting work for the Project Manager position. Six consulting firms responded to the request for proposal, each submitting a different per diem rate for the services of their candidate for the position. The successful contractor submitted the highest bid at $1,050 per day ($157,500 for 150 days).

  In 1989, the successful contractor was selected for the assignment based on a number of experience and competence considerations, but not until their per diem rate had been negotiated down to $875.

  On March 31, 1990 the original contract expired before the project was completed, and consequently, the term of the contract was extended. On April 10, 1990 the Department wrote a letter to the Department of

Government Services requesting a change order be prepared to increase the per diem rate from $875 to $1,225. Government Services complied and issued the change order on April 30, 1990. The change order increased the rate by 40%.

In our opinion, once consultants are selected they should be contracted for the whole term of the project, if possible. If the length of a project is difficult to forecast, then it would be acceptable to include in the contract a clause permitting an annual rate escalation based on the consumer price index or some other reasonable indicator.

- The contract between the Department and the consultant is supplemented by the government's request for proposals and the consultant's proposal, which are supposed to document the services to be performed and the products to be delivered by the consultants.

  Neither document describes the services to be performed or the products to be delivered. The documents list eight types of skills the Project Manager must possess, and state that the manager will act as an integral part of the overall management team.

  It is imperative that when consultants are engaged, the specific duties and products to be delivered be outlined in detail, and agreed upon in a formal contract. Otherwise, there is a very real risk of disagreement with the consultants regarding the performance of specific tasks.

Communication Projects – A series of payments to Corporate Strategy Group were made in the period covered by our review of Payments to Consultants.

Department	Project	Amount
Various	Stakeholder Relations Program	$135,000
Health and Fitness	Communications Strategy	$ 65,000
Nova Scotia Information Services	Communications Audit	$ 42,000

Six departments and agencies contributed to the payments for the Stakeholder Relations Program. The Communications Strategy Project also involved payments to Decima Research Limited totalling $57,000.

The government also paid $36,000 to Corporate Strategy Group for general consulting and advice on communications matters from June to August 1989; as well as less significant amounts for training.

Some of our observations relating to these communications projects are described in the following paragraphs.

- Corporate Strategy Group was selected for the Communications Strategy Project without a competitive selection process. Decima Research Limited was selected for the project by Corporate Strategy Group, but was paid by the Department of Health and Fitness.

- The Department of Health and Fitness drafted two contracts for the Communications Strategy assignment, but these contracts were not executed prior to the commencement of the assignment. Formal contracts were not executed for the Stakeholder Relations Program and the Communications Audit.

- The Communications Strategy Project was approved in principle by Management Board. However, Management Board stated that formal approval would not be granted until the contracts for the project were submitted for review. This formal approval was not received prior to the completion of the project by the consultants.

Concluding Remarks

Government uses consultants on a regular basis, and the cost of their services is a significant expenditure. Most departments selected for this government-wide audit had adequate control over consulting service arrangements. In particular we found an appropriate degree of monitoring by the departments during the course of most consulting assignments. However, certain recurring weaknesses were noted, and accordingly we have the following recommendations.

- Competitive selection methods should be used, almost without exception, unless there is an appropriate roster from which to make the selection.

- A formal written contract should always be used for the engagement of consulting services on a significant project.

- Invoices from consultants should contain adequate details to support the billings, including hours, rates and persons performing the work. They should not be approved for payment unless all of these are reported and the billing is in accordance with the terms of the contract.

- Formal written performance evaluations should be prepared on the work of consultants at the end of each assignment, and on a periodic basis for lengthy multi-year assignments.

- It is also our opinion that Management Board should assume a greater role in the area of consultant utilization by:

  - developing more comprehensive government-wide policies than currently exist;
  - documenting the reasons for the selection of consultants over the use of department staff;
  - monitoring the use of the Roster Rotation Method; and
  - ensuring that adequate and timely performance evaluations of consulting assignments are done.

Royal Commissions' Expenditures Donald Marshall Jr. Prosecution and Health Care

Summary

Background – During the current audit year we completed audits of the operating expenses of the Nova Scotia Royal Commission on the Donald Marshall Jr. Prosecution (Marshall Commission) and the Nova Scotia Royal Commission on Health Care (Health Commission).

Objectives – The objectives of these audits were to determine if:

- expenses were incurred for valid Commission purposes;
- Provincial policies and procedures were appropriately applied by each Commission;
- adequate procedures existed to approve and control the expenses of each Commission; and
- each Commission had an adequate system of financial reporting.

Conclusions – Our overall conclusion is that there is a need for summary guidelines to assist in the administration of special commissions. These commissions are normally comprised of personnel with knowledge and expertise in the area of inquiry, but who might not be familiar with the Province's policies and procedures for specific functions such as payment of expenditures and personnel matters.

Based upon our examination of the expenditures of both Commissions, we have reached the following conclusions.

- Expenses were incurred for valid Commission purposes, and there were adequate procedures within each Commission to approve expenses.
- The Province's policies and procedures regarding required documentation and guidelines for travel costs were not followed in certain cases where the Commissions felt that departures from policy were necessary.
- There was no effective process to ensure that expenditures of the Commissions were correctly classified and reported on the Department of Finance records, from which the Public Accounts of the Province are prepared.

We recommended to Management Board that guidelines be prepared and made available to Royal Commissions or similar entities who will be incurring expenditures to be paid by the Province. We have also recommended that necessary steps be taken to provide adequate consultation and advice to these bodies on matters relating to administration, expenditure payment, personnel, and other related matters.

Introduction

The Royal Commission on the Donald Marshall Jr. Prosecution was established on October 6, 1986 and issued its final report in December 1989. The Royal Commission on Health Care was established on August 25, 1987 and issued its final report on December 8, 1989.

There were Orders in Council which gave general direction and powers to each Commission, but the Commissions functioned as entities independent from government departments, and were empowered to approve invoices for payment.

We examined the expenditures for both Commissions from their inception to December 31, 1989. Expenditures of the Marshall Commission were $5.7 million to December 31, 1989, and $6.1 million to March 31, 1990; and expenditures of the Health Commission were $3.3 million to December 31, 1989, and $3.8 million to March 31, 1990.

In the conduct of these audit assignments, we had numerous discussions with senior administrative staff of the two Commissions, and also communicated with the Chairman of each Commission. In addition we reviewed "A Handbook on the Conduct of Public Inquiries in Canada". Throughout these discussions and our reading it was clearly established that it is paramount to the success of a Royal Commission that its independence be maintained.

We agree with the overriding principle that Commissioners must act in total independence from government, particularly when part of their mandate includes an examination of government policies and practices. This includes the need for a commission to decide specifically what expenditures are deemed necessary for its work. However, there should be available to government certain provisions to facilitate their monitoring of the overall expenditures of a given commission. These might be briefly tabulated as follows:

- requirement for submission of a budget on both an annual basis and where feasible for the term of the assignment, with periodic updates as deemed appropriate;
- generally, compliance with the documentation requirements and spending guidelines in effect for the Province's expenditures; and
- an opportunity for government to be made aware of and have the right to comment on the awarding of specific contracts (solely for purposes of advising the Commission on possible conflict of interest, and/or competency situations about which the Commission might not be aware). However, the final choice of contractors should be the exclusive prerogative of the Commissioners.

Our findings and recommendations are described under seven headings:

Guidelines for Commissions
Travel Costs
Documentation of Approvals
Expenditure Controls
Financial Reporting
Salary and Remuneration Rates
Billings for Services

Guidelines for Commissions

The staff of each Commission had knowledge and expertise in the area of inquiry, but did not include personnel who were familiar with the Province of Nova Scotia Management Manuals, and the Provincial reimbursement rates for various expenses.

Unfortunately the advice provided the Commissions concerning the Province's policies and procedures was somewhat limited, and did not convey the necessary information on expenditure practices.

The following observations resulted from our review of both Commissions' expenditures:

- certain expenses were incurred which exceeded the guidelines for government personnel;
- required Management Board approval for certain expenditures was lacking;
- expenditure controls did not always function as intended; and
- reconciliations of Commission records with those of the Department of Finance were not performed.

Our recommendations regarding guidelines for Commissions are as follows:

- Management Board should prepare a summary document of relevant aspects of Provincial Government operations, including guidelines for reimbursement of expenses.
- Commissions should be provided with copies of relevant government practices and regulations, as well as having someone designated on a continuing and responsible basis to provide advice as required by the commission.
- The guidelines should indicate that there may be circumstances where a Commission will incur expenses which are contrary to or in excess of Provincial guidelines. The specific Commission guidelines should outline procedures to be followed in these circumstances.

Travel Costs

Specific guidelines were issued concerning travel expenses for the Marshall Commission in Order in Council 86-1265, dated October 28, 1986, which included the following provisions:

- authorization for payment to the Commissioners for expenses for travel, reasonable living expenses, and other disbursements necessarily incurred in the Inquiry in accordance with the provisions of the *Judges Act*;
- directed the Commissioners to retain the services of legal counsel and such other support personnel who, in the opinion of the Commissioners,

are required for the purposes of the Inquiry at remunerations that shall be approved by Management Board, and authorize the Commissioners to approve for payment reasonable expenses for travel, accommodation, meals and other disbursements necessarily incurred by such personnel for the purposes of the Inquiry; and

- defined guidelines for administrative expenses for this Commission, noting that private vehicle travel and air travel should be reimbursed in accordance with Provincial policy.

The only guideline concerning expenses conveyed to the Health Commission was by Order in Council 87-1008, dated October 28, 1987 which in part stated:

> *"Authorized payment to the Commissioners, Secretary and other personnel required in the work of the Commissioners for necessary disbursements, travel and reasonable living expenses as are required in the discharge of their duties, such payments to be made in such amounts and upon such conditions as are approved for public servants or by Management Board from time to time."*

Discussions with the Executive Secretary of the Marshall Inquiry, and the Executive Director of the Health Commission indicated that they were not fully aware of the requirement to adhere to Provincial government guidelines. Although staff from the Office of the Speaker did review all payments for account classification purposes, they did not review these payments for compliance with Provincial policies and guidelines.

With respect to travel costs, it is our recommendation that guidelines be prepared for Commissions which summarize Provincial policies and reimbursement rates for travel expenses, with particular reference to applicability; documentation requirements; suggested allowances and rates; and requirements for deviation from these allowances and rates. The guidelines should be referenced to source documents which detail the policies and rates.

Documentation of Approvals

The Order in Council establishing the Marshall Commission stipulated that Management Board approval was required for retaining the services of legal counsel, technical, secretarial, and clerical personnel.

We recognize the rather unique position of a Commission whose independence must be assured in performing the work it considers necessary for the tasks assigned to it. However, Government also has a fundamental responsibility to ensure funds are spent in accordance with its policies and procedures governing expenditures.

A review of the expenditures of this Commission indicated that contracts with various researchers and consultants were not approved by Management Board. We also noted three cases where services obtained were not documented by a signed contract or agreement. It is our opinion that without formal contracts or agreements, there is the possibility that differences of opinion may arise as to the interpretation of a consultant's role and duties.

The Order in Council establishing the Health Commission required approval by Management Board of the terms and conditions for the services of personnel, reimbursement of personnel costs, and the terms and conditions for appointing consultants.

Our review of expenditures indicated that in a number of cases there was no evidence of Management Board approval for the services of consultants. In addition, we noted four cases where services obtained were not documented by a written contract or agreement.

We have recommended the following relating to documentation approvals.

- The guidelines for commissions should specifically define the role of Management Board regarding expenditure approval and monitoring.

- The guidelines for commissions should require that services over a minimum amount be subject to a written contract or agreement. Every contract or agreement should specify, as a minimum, the services required and/or expected results, the payment terms and/or rates, the time span of the agreement, the services to be delivered, the required delivery dates, and the effective date of the agreement.

Expenditure Controls

Each Commission was established as an entity, independent from government departments, and was empowered to approve invoices for payment. Commission administrative staff received invoices from vendors and verified that the goods and services were received, checked the prices, rates and extensions and recorded the invoice in the Commission's records. The invoice was approved by a senior member of the Commission and the documents were sent to the Speaker's Office for coding.

Our audit tests revealed the following deficiencies:

- credit card slips were accepted as adequate documentation to support expense claims without the original documentation being attached;
- invoices received after the Inquiry ended were approved by the Speaker's Office, but their staff did not have the knowledge to adequately review the invoices;
- there were eight instances concerning the Health Commission where invoices did not have proper approval signatures of Commission staff; and
- an instance where a Health Commission payment for services exceeded the contracted amount.

In our opinion the administration of the expenditure function was adequate except for the deficiencies noted above.

It is our recommendation that guidelines for commissions should include a section which clearly indicates requirements and procedures for accounting controls over expenditures.

Financial Reporting

Departments and agencies whose expenditures are paid by the Department of Finance normally reconcile their records with those of Finance on a monthly basis. Neither Commission was able to reconcile its records to those of the Department of Finance, because costs were classified in different expense categories by Finance. Thus it was not possible for staff to ensure that Finance records of Commission expenditures were accurate and complete.

Our review of both Commission and Finance records noted the following matters:

- no detail record of payroll expenses was sent to the Commissions, thus they could not monitor the costs charged to them;
- certain significant costs were included in a "Miscellaneous Expense" account in the records of Finance during the first year of the Health Commission and the first two years of the Marshall Commission, which again made it virtually impossible for the Commission staff to check expenditures charged to them; and
- expenses of the Health Commission did not include costs for space occupancy, which was absorbed by the Department of Government Services.

Our recommendations regarding financial reporting included the following.

- The guidelines for commissions should include the list of standard account classifications used by the Department of Finance.
- The expense accounts assigned to commissions should include sufficient accounts to segregate significant costs.
- All costs associated with a commission should be recorded in the accounts of the Commission.
- The guidelines for commissions should require that commission records be reconciled with the Department of Finance records on a monthly basis.

Salary and Remuneration Rates

The Order in Council establishing the Marshall Commission specified that Management Board should approve the terms, conditions, and remuneration rates of Commission personnel. It did not define policies for overtime, travel time, and lunch hours.

The Order in Council establishing the Health Commission, although quite similar to the above, specified that Management Board should approve the terms, conditions, and remuneration rates of Commission personnel and the remuneration rate for each five hour day of Commissioners. It did not define policies for overtime, travel time, and lunch hours.

Our review of Marshall Commission documentation revealed that legal counsel were reimbursed for lunch and travel time, and that researchers were reimbursed for travel time.

Our review of documentation for the Health Commission revealed that Commissioners were paid an hourly rate for time in excess of five hours, and staff were paid for overtime hours for nights and weekends, inclusive of travel time.

It is our recommendation that guidelines for commissions should define explicitly government policies for overtime, travel time, and lunch hours.

Billings for Services

The work conducted by the Commissions required engaging the services of legal counsel, researchers, and others. The subsequent billings for the various services did not always provide adequate support and details for the total billings. We also noted that documentation supporting expense claims for travel, accommodation, and other direct costs or disbursements was not always adequate.

Accordingly, we have recommended the following.

- There should be guidelines clearly indicating the required details to support billings for services – to include the dates the services were rendered, the time expended each day, the specific function performed, and the rates charged for the personnel involved.

- Billings for other direct costs associated with the provision of professional services should be supported by the original documentation covering the disbursements.

Overall Conclusions

Our review of the procedures and controls over the expenditures for the two Royal Commissions indicated that overall a sincere attempt was made to administer expenditures properly. A word of commendation is due the Executive Secretary of the Marshall Commission who took special efforts to challenge and negotiate certain legal billings submitted to them.

However, the administration of both Commissions was seriously hampered by the lack of more definite guidelines for the expenditure process and the lack of ongoing counsel to them.

Accordingly we have recommended that:

- Management Board should prepare guidelines to assist in the administration of special commissions.

- Necessary steps should be taken to provide adequate consultation and advice to special commissions on matters relating to administration, expenditure payment, personnel, and other related matters.

Department of Solicitor General
Correctional Centres

Summary

Background – During 1989 our office performed audits in five areas of the Department's operations namely: the R.C.M.P. policing contract; Halifax County Correctional Centre; budget preparation for the correctional centres; control of capital assets; and recovery agreements.

Objectives – The objectives of our audit were:

- to review and evaluate the systems of control over current, capital and payroll expenditures; and
- to review practices in the five operating areas as noted above.

Findings and Conclusions – The following summarizes our findings and conclusions.

- The information being supplied by the R.C.M.P. is adequate to monitor contract costs, and is reviewed by appropriate departmental officials.
- The systems of control for purchasing and payroll functions are adequate, but the systems of control at the Halifax County Correctional Centre over inmate trust funds and canteen operations are inadequate.
- Staff at the correctional centres have minimum input into the preparation of their budgets, and we recommend that the Department assign greater responsibility for both the monitoring and controlling of expenditures to the staff of the correctional centres.
- The Department does not have an adequate system of control over the custody and movement of capital assets.
- There are adequate systems of control over recoveries from gun control, exchange of service agreement, and lock-up facilities at adult correctional centres.

We have been informed by Department officials that many of our recommendations have either been implemented or are in the process of being implemented.

Introduction

The Department of Solicitor General is responsible for the provision of policing services in the Province; administering the dispositions of the courts; and providing safe custody, direction and control for the accused or convicted offender. The Department also has responsibility for the Lieutenant Governor's Review Board, Nova Scotia Police Commission, Nova Scotia Police Review Board, and the Provincial Firearms Office.

During our audit assignment, we evaluated the systems of control over current, capital and payroll expenditures, as well as examining five distinct areas of operations of the Department. These were the R.C.M.P. policing contract; selected areas at the Halifax County Correctional Centre; budget preparation and expenditure control; custody and movement of capital assets; and recoveries in three areas – gun control, exchange of service agreement, and lock-up facilities at adult correctional centres.

R.C.M.P. Policing Contract

The objectives of our review of this policing contract were to determine whether the financial information supplied by the R.C.M.P. is adequate to monitor contract costs, and whether the information supplied is subject to an appropriate level of review by the Department of Solicitor General. This review also included a follow-up on recommendations made to the Department of Attorney General by our Office on February 17, 1988, as a result of an audit performed at that time.

The level of detail now provided by the R.C.M.P. to the Department is significantly enhanced over what it was prior to 1988, and includes the following:

- a detailed breakdown of budgeted costs for both direct and indirect costs;
- a written explanation from the R.C.M.P. for significant variances from the previous year's budget;
- actual expenditures and revenues organized into the same categories as the budget, with written explanations for significant variances from the budget;
- details on staff complements and salary rates which are used to determine the reasonableness of actual salary costs; and
- monthly meetings between R.C.M.P. representatives and the Department to review year-to-date expenditures and forecasts for the fiscal year.

It is our opinion that the information supplied by the R.C.M.P. to the Department is adequate to monitor contract costs, and that this information is subject to an adequate level of review by the Department.

Halifax County Correctional Centre

The Solicitor General is responsible for providing for the incarceration of remanded and sentenced adult male and female prisoners in adult correctional centres. The largest of these facilities is the Halifax County Correctional Centre, which we visited during our audit.

The objectives of our audit were to obtain background information on the operation of a correctional centre; and to assess the accounting and control practices for payroll, purchasing, canteen operations, and inmate trust funds.

Based on the results of our audit tests, we concluded that the systems of control over the payroll and purchasing functions are adequate; however, the systems of control over canteen operations and inmate trust funds are inadequate.

The Correctional Centre operates a canteen for inmates and staff, and also maintains trust accounts for inmates admitted to the Centre. These accounts consist of money brought by inmates or money earned by them for performing assigned tasks. Purchases made by inmates from the canteen are charged against these accounts, but purchases made by staff of the Centre must be in cash.

Significant control weaknesses were found regarding canteen operations which are tabulated as follows:

- three different individuals, on a part-time basis, are responsible for accounting for both inmate trust funds and the operation of the canteen, but overall responsibility is not assigned to any one individual;
- cash sales are not controlled by any source documents or rung through a cash register, nor is cash balanced when staff change shifts;
- there are no written policies or guidelines for cash or inventory control, the operation of the canteen or the use of profits from the canteen;
- monthly operating reports for the canteen are not prepared for review by senior management;
- controls are deficient over goods received from suppliers for the canteen; and
- although the Centre has an informal policy to sell goods generally at a mark-up from 3% to 5%, we found that tobacco was being sold below cost.

We found serious weaknesses in the systems and controls over inmate trust funds, the more significant of which are as follows:

- segregation of duties is inadequate, in that three individuals have access to inmates' trust fund forms, as well as to cash and inventory;
- procedures for recording monies received are inadequate;
- there is no numerical sequence control over cash receipts, so they cannot be accounted for properly;
- there is no bank account for these funds;

- inmates' trust funds are not reconciled to cash on hand nor are there control totals maintained to prove the accuracy of inmates' trust fund cash on hand;
- there is no way of determining cash overages and shortages; and
- there are no written policies or guidelines on the operation of the inmate trust fund accounting system.

The total money received for the calendar year 1989 was $126,000 for canteen operations, and $122,000 for inmate trust funds. The inadequacy of the accounting systems and controls are so serious that the risk of loss or theft is extremely high.

We have provided the Department with 21 recommendations directed towards the implementation of revised accounting systems and control procedures.

We have been informed by Department officials that many of our recommendations have been implemented or are in the process of being implemented.

Budget Preparation and Expenditure Control

At the time of our audit there were 13 adult correctional facilities administered by the Department with a total capacity of 529 beds. The cost of operating these facilities for the 1988-89 fiscal year was in excess of $16 million. The largest of these is the Halifax County Correctional Centre, with a budget in excess of $5 million, which we visited during the performance of our audit.

The objectives of our examination were to determine:

- the degree of input by the correctional centre staff in the budget process; and
- the responsibilities of correctional centre staff for monitoring and controlling expenditures.

The budgets for all correctional centres are prepared by the Correctional Services Division at head office in Halifax. Although correctional centre staff provide input in preparing the budget, they are not directly involved in its preparation, nor are they provided with a copy of the approved budget. It is our contention that individuals who are involved in decisions affecting expenditures should be held accountable for these expenditures. However, to do so, they must have a greater involvement in the budgeting process. Accordingly, we provided the Department with some guidelines to facilitate a greater degree of involvement by correctional centre staff.

Our conclusion is that correctional centre staff have insufficient input into the preparation of their budgets, and have not been given responsibility to monitor and control expenditures. We have recommended that the Department should move toward assigning these responsibilities to the staff of the correctional centres to improve overall accountability and administration.

We have been informed that staff at the correctional centres are now involved in the preparation of their budgets and are responsible for monitoring and controlling expenditures.

Control of Capital Assets

The Department of Solicitor General has numerous offices and facilities throughout the Province, and these locations have many pieces of furniture and equipment which could be subject to theft or destruction. The objective of our review was to determine if the Department has adequate systems of control over custody and movement of capital assets.

On the basis of our audit tests we concluded that the system of control over custody and movement of assets at head office is adequate. However, we concluded that controls at the Halifax County Correctional Centre were deficient because assets were not marked with unique identification numbers, and their movement was not controlled by adequate documentation.

We have been informed by Department officials that all of our recommendations have been implemented.

Recovery Agreements

The Province has entered into several cost-sharing agreements with the Federal Government for programs administered by the Department of Solicitor General. We examined recoveries under three of these, namely the costs of administering the Criminal Code provisions concerning gun control, charges to the R.C.M.P. for using lock-up facilities at adult correctional centres, and costs relating to the exchange of service agreement with the Canadian Penitentiary Service.

The objective of our audit was to determine if the Department has adequate systems of control over these recoveries.

Based upon the results of our audit tests, we concluded that the Department has adequate systems of control over recoveries for each of the three aforementioned cost-sharing agreements.

Department of Transportation and Communications
Land Acquisitions and Disposals

Summary

Background – During the past year we completed a review of the land acquisitions and disposals processes of the Department of Transportation and Communications. The period covered by this review was April 1, 1987 to February 28, 1990.

Objectives – The objectives of this audit were to assess whether:

- operations are conducted in an efficient manner, and purchases are made with due regard for economy;

- the Department achieves the objectives laid down for the acquisition and disposal of land; and
- the Department complies with relevant legislation and policies.

A similar review was also performed at the Department of Lands and Forests, and is reported upon separately in an article on page 156.

Findings and Conclusions – Based on our review of land acquisitions, we concluded the following.

- Policies and procedures are adequate to ensure that only land which has an appropriate use to the government is acquired, and there is strategic planning by the Department to provide for future land needs of the Province.
- There were deficiencies noted in the documentation of purchase price determination; accordingly, it is not possible for management to review the accuracy of land value determinations.
- The policies, criteria and practices for the selection of lawyers and appraisers are adequate.

Based upon our review of land disposals, it is our opinion that policies and procedures are adequate to ensure land is sold for appropriate reasons, but inadequate to ensure that land is sold for reasonable amounts.

Introduction

The administration of the land acquisitions and disposals process for the Department is handled by the Right of Way Claims Division, and all transactions are on file at the Provincial Crown Lands Record Centre. The responsibilities of this Division are to investigate, evaluate and negotiate the acquisition of land for right of ways. Land disposals are made infrequently.

The primary requirement for land acquisition is for new highway construction. Land is also acquired for upgrading of existing roads, for Department sites (e.g. garage, storage facilities), and as a source of materials for highway construction. Land is acquired by direct contact and negotiation with the land owners. When it is not possible to finalize a transaction by this process, or when it is necessary to have title to the land guaranteed, the more thorough process of expropriation is undertaken.

The Department spent $2.7 million on land acquisitions in the fiscal year ended March 31, 1989, and $2.1 million in the period April 1, 1989 to February 28, 1990.

Land Acquisitions

The specific objectives of our review of the land acquisitions process were to assess whether:

- policies and procedures are adequate to ensure that land is purchased, expropriated or transferred at reasonable prices, and only land that has an appropriate use to the government is acquired;
- future land needs of the Province are determined and monitored in accordance with the strategic plan;
- adequate legal and accountability documentation is maintained for each Crown land transaction; and
- the practices for the selection of lawyers and appraisers used for land transactions are reasonable.

The sample of transaction files reviewed included 15 expropriation files, 29 land purchases, and 15 land trades.

Our review of the policies and procedures used for land acquisitions, and our examination of a sample of specific files, provided the basis for the following conclusions.

- Policies and procedures are adequate to ensure that only land which has an appropriate use to the government is acquired, although there is no documentation supporting the determination of the purchase price and it is not possible for management to review the accuracy of land value determinations.

- The Department performs an adequate strategic planning exercise to provide for future land needs of the Province.

- There were instances of non-compliance with requirements of the Expropriation Act. An appraisal report was not received within the specified time limit; interest was not paid to one land owner; and in one case an offer was made without an appraisal report.

- The policies, criteria and practices for the selection of lawyers and appraisers used for land transactions are adequate.

Land Disposals

The Department infrequently disposes of land. A disposal is necessary when Provincially-owned land becomes surplus, due to realignment or closure of roads, or when a portion of a land purchase is not required.

The objective of our review in this area was to assess whether policies and procedures are adequate to ensure land is disposed of for reasonable amounts and appropriate reasons.

In the process of conducting this review we examined 14 files. We concluded that:

- Policies and procedures are not adequate to ensure land is disposed of for reasonable amounts. Because the files did not contain adequate documentation on the value of the land disposed of it was impossible for management to ensure the Department received proper value for the disposal.

- The policies and procedures to ensure land is sold for appropriate reasons were found to be followed in the files we examined.

* * * * * *

OTHER AUDIT OBSERVATIONS

Introduction

Each year, my Office performs many audits in the departments of government, reviewing their accounting and financial systems and examining transactions. The extent and variety of these audits is shown in Appendix II to this Report, which tabulates the 67 audits performed in 21 departments during the current audit year. These audits are done to fulfill the audit mandate of Section 8 of the Auditor General Act.

Section 9 of the Act requires that I report certain specific items that come to our attention during these audits. This requirement is met by the items included in this section of my Report and in the article on Additional Appropriations, page 55. In addition, there are articles in the Special Departmental Reviews section of this Report (commencing on page 120), which describe the results of a number of broad scope and government-wide audit assignments performed during the year.

Accounting Function Performance

Summary

This article describes the implications of inadequate performance of the accounting function by certain agencies, corporations and departments.

For the March 31, 1990 fiscal year there were several instances of a flagrant lack of attention and priority to a basic financial accounting responsibility, which is readiness for and support of the annual financial statement audit. The results were twofold, a serious disruption to the audit plans and scheduling of our Office, and significant delays in the finalization of the Public Accounts of the Province.

As a result of this situation, which has been prevalent for the past three years, our Office in cooperation with the Department of Finance has issued directives which will have to be adhered to, in order to overcome the problems described at greater length in the following paragraphs.

Introduction

In each of the past three Annual Reports there have been commentaries on the effect of the performance of the accounting function, by audit clients of this Office, on our financial statement opinion audits. There are 30 such audits performed by our Office, and these are listed in Appendix III.

Our comments have been related to the effect that an unsatisfactory degree of readiness, on the part of these clients, has had on our ability to perform the audits within the budgeted hours and time deadlines.

For the March 31, 1987 fiscal year, we encountered delays totalling over 900 hours at a cost to the Office of nearly $40,000 for our financial statement audits. In 1988 there was considerable improvement in the state of readiness, largely due to procedures we introduced that year to assist the clients in being better prepared.

In 1989 the state of readiness was, in some respects, the worst we had encountered in recent years. Overall there was improvement in the state of readiness of many departments and agencies in 1990. However, there were several audits where we experienced significant difficulties in completing the audit. Two of these were not finalized until March, 1991 almost a year after the fiscal year end.

The Problem

In our view there are three fundamental reasons for the problems being experienced, each of which must be addressed in order to rectify the situation.

- Foremost is the attitude prevailing in certain agencies, corporations and departments concerned, which places insufficient attention and priority on a basic financial accounting responsibility – readiness for and support of the annual financial statement audit.

  Since most government entities recognize and fulfill this responsibility in an effective manner, there is no reason why all cannot do so. There is clearly an additional cost and disruption which results from situations where senior accounting staff of some entities do not meet their annual audit responsibilities effectively. Hopefully this attitudinal deficiency will be overcome in the future.

- There are entities which suffer from staffing inadequacies in their financial accounting function. This is particularly evident when it comes to the preparation of the annual financial statements which would meet the requirements of an audit.

  Our Office has provided a considerable degree of support to most government entities in the preparation of their annual financial statements. This we will continue to do. However, for the major entities who have staff persons with professional accounting designations, and who remunerate them accordingly, there is no excuse for certain situations we have encountered over the past few years.

  In some instances, our Office is being required to perform accounting related tasks, the responsibility for which is clearly one for the entity's staff.

- A third consideration which has impacted on the ability of certain entities to be prepared on a timely basis for audit has been their dependency on data generated by the Department of Finance.

There are two aspects to this dependency:

- the propensity to wait for final trial balance data from the Department of Finance before undertaking certain key year-end accounting procedures; and
- the time consuming task of reconciling the entity's data to that of the Department of Finance.

Although there will always be this dependency for most of the entities concerned, steps are being taken (as described later) to overcome this particular problem.

In addition to this dependency on data from the Department of Finance, there are a few entities who have experienced unreasonable delays in receiving Order in Council approval for transactions critical to finalization of their audited financial statements.

The Effect

The effects of this unsatisfactory situation concerning year-end audits are such that they warrant more extensive discussion than was included in our previous Annual Reports.

- The effect on our Office's audit scheduling has been particularly serious and of real concern. We do acknowledge that there will be unforeseen and to some extent unavoidable circumstances contributing to delays. The incidents discussed in this article do not fall into this category.

  In each of the past two years, the net effect of delays experienced and additional time having to be spent on these audits is the loss of approximately one person year. This represented time which would have been spent on two to three medium size audit assignments or one large one. Accordingly, we have had to cancel and/or defer assignments we had planned.

  Since our audit plans involve multi-year scheduling and cycling of many of our audits, this sort of unanticipated and avoidable disruption to our scheduling is a matter of real importance to us.

- A second effect, of particular impact this year, was the delay in finalizing the Public Accounts. This related principally to certain of the Province's loan funds and difficulties experienced in obtaining adequate documentation for audit purposes. These problems were not entirely within the control of those with administrative responsibilities for the funds.

  Although the complete Public Accounts of the Province are not tabled until approximately one year after the fiscal year end, the Financial Statements of the Province are released about six months after the fiscal year end. These statements contain the principal ones to be included in the Public Accounts, and there is a need for these to be available on a timely basis.

- A third consideration is one which may not be fully appreciated by the entities concerned. It is the effect that the unreasonably long period for finalizing the year-end audit must have on both the efficiency and effectiveness of their own financial administration function.

  To spread this assignment over a period often exceeding six months has to impact significantly on the ability to perform other mandatory and discretionary tasks. From an efficiency standpoint alone, it makes eminently good sense to concentrate resources on completion of the audit in as short a period as possible.

The Remedy

On the basis of discussions between senior management of the Department of Finance and our Office, the following course of action has been decided upon.

- The Department of Finance is to communicate with all entities the need to meet specified financial statement completion deadlines, and to confirm data output from Finance for those with key dependencies on this data.

- Specific items are:

  - all loan funds are to be instructed to estimate, on a preliminary basis, their allowances for doubtful accounts at February 28, 1991 to facilitate year-end finalization;

  - entities are to be instructed to proceed with their own financial statements on the basis of period 13 data which should be available between April 20 and 25th; and

  - departments which provide services to others are to be instructed to process their year-end billings by April 30th.

- Our Office will continue the practice of sending detailed written instructions to all auditees regarding items required for the year-end audit. These instructions will be enhanced somewhat this year with copies to the chief executive officer of the entity as well.

There is no reason to believe that acceptance of and adherence to the agreed upon practices for completion of year-end audit assignments will not overcome the difficulties experienced in 1990. However, should there be cases where we encounter unreasonable time and cost overruns in the completion of an audit, due to deficiencies on the part of the client, we will bill for the excess time we incur. This will be billed not only to those who are currently on a charge basis by the Office, but also to those who are not subject to an audit fee.

Moreover, it may be necessary to engage outside auditors for all or part of audits where completion problems are encountered, or for other audits which were scheduled. This Office cannot be expected to continue to absorb excesses simply by the alternative of cancelling or deferring audits which should be performed.

Specific Examples

Several examples of the experiences we had in completing our 1990 year-end audits are described briefly.

- The completion of the Victoria General Hospital audit was again delayed this year, despite the fact we scheduled it two months later to accommodate them. Three items warrant comment. Firstly, significant accounting errors were discovered during the audit which required substantial time to investigate. Secondly, senior accounting staff did not respond to our queries on a timely basis regarding information required to complete the audit. Thirdly, although audit field work was completed in October 1990, the financial statements were still not finished at January 31, 1991.

- Completion of the Nova Scotia Hospital's March 31, 1990 financial statement audit was significantly delayed and required additional audit hours. Information requested was not available or prepared by hospital staff prior to the start of the scheduled audit fieldwork. The accounting division was understaffed due to illness and delays in filling vacant positions. Also, information required to prepare for the audit was not available early enough from the Department of Finance. This included both year-end account balance information and information to resolve certain payroll discrepancies. Due to these delays, and other assignment work, the financial statements of the Hospital were not finalized until January 1991.

- The completion and final release of the financial statements associated with the loan funds administered by the Nova Scotia Business Capital Corporation during most of the 1989-90 fiscal year were again this year significantly delayed. Although management was better prepared for the 1990 audit than they were in 1989, there were still some fairly significant problems encountered with respect to the availability of certain information and documents required to finalize our audit procedures. The legal and administrative matters associated with the wind up of Industrial Estates Limited also contributed to the delay and added hours. It is acknowledged that some of the delay was due to matters not fully within the direct control of the management concerned.

- In the Department of the Solicitor General we found an excessive and unwarranted number of errors while conducting a claims audit which resulted in a significant increase in audit time, and delayed the issuance of the claim by over four months.

- The completion of the audits of the Housing Development Fund and the Housing Development Corporation were significantly delayed and required additional audit hours. This was primarily due to the fact that the Department of Housing was required to move to new premises part way through the audit. By the time the Department was ready for us to resume the audit, members of the audit team had other commitments which prevented immediate resumption of the audit. Although it is acknowledged that the delay was due to matters not within the direct control of the Department, completion of the audit was delayed by more than two months.

Cash and Other Losses

Pursuant to Section 9 (1) (e) of the Auditor General Act, I report the following incidents where *"there had been a deficiency or loss through fraud, default or mistake of any person"*, for the fiscal year ended March 31, 1990.

Department of Advanced Education and Job Training

Equipment valued at $10,242 was reported stolen at seven separate locations in the Province. Although all cases were reported to the police, there were no recoveries or arrests made.

Department of Attorney General

There were 14 instances of cash losses totalling $2,006 reported by 10 public official offices in the Province. Of this amount $609 has been recovered. Further recovery of $789 is anticipated.

Equipment valued at $700 was stolen and although investigated by police, there has been no arrest or recovery.

Department of Government Services

The Department suffered a loss of $20,771 as a result of fraudulent activity by an employee who was subsequently charged, convicted and dismissed. Full recovery has been made.

Department of Industry, Trade and Technology

The Department suffered a loss of $5,023 as a result of fraudulent activity by an employee who was subsequently charged, convicted and dismissed. Full recovery has been made.

Department of Transportation and Communications

Equipment and material valued at $15,393 was lost or stolen from various locations throughout the Province. There have been no recoveries or arrests made.

Other

There were five other minor cash losses totalling $632 with no recovery made.

Provincial Retirement Plans

Introduction

The Auditor General is responsible for auditing the Public Service Superannuation Fund and the Nova Scotia Teachers' Pension Fund annually. Each audit results in an opinion on the balance sheet and the statement of continuity of the Fund. Included in these audits is a review of contributions received, investments, and pension payments made.

The Funds' positions in relation to future pension commitments are not assessed by my Office. Actuaries qualified by the Canadian Institute of Actuaries conduct this assessment, and actuarial reviews of the two Funds are performed on a regular basis.

The actuarial valuation of a pension fund is a relatively complicated process. It involves mathematically forecasting future expectations for the pension plan, taking into consideration factors such as anticipated salary progression, estimates of inflation, the rate of return on invested funds, and probable rates of employee retirement, death, or disability.

The actuary prepares an "actuarial balance sheet" which shows the present value of liabilities for pension benefits earned to that date for pensioners and for active employees still working, anticipated future benefits earned to date payable for active employees, and expected refunds of contributions upon death or termination of current employees. From the total liabilities so calculated is deducted the current value of all investments in the fund at the date of the actuarial balance sheet. When these liabilities exceed the available assets, it represents an unfunded actuarial liability. This means the pension plan has commitments to be met in the future for which funding has not been provided.

It has been the practice of this Office to comment on the results of the valuations because the unfunded liabilities of both plans are relatively large. In my 1989 Annual Report, I discussed the most recent actuarial report on the Teachers' Pension Fund at July 31, 1988, and also the cash flow study on this Fund made in April 1989. Since then, there has been an actuarial review of the Public Service Superannuation Fund at March 31, 1990. There have been no further actuarial reviews of the Teachers' Pension Fund, although one is scheduled for 1991.

Public Service Superannuation Fund

The actuarial report on the Public Service Superannuation Fund at March 31, 1990, issued in October 1990, contains the following principal conclusions.

- The unfunded liability at March 31, 1990 was $246.4 million, which compared with $240.6 million at March 31, 1987. This increase is due to the net effect of the following:

		($ millions)
Increases –		
Because the unfunded liability at March 31, 1987 does not earn interest		$71.0
Costs due to higher termination benefits		19.4
		90.4
Decreases –		
Excess of current employee/employer contributions over the cost of benefits being earned	$22.5	
Investment gains in excess of projections	42.5	
Total effect of other favourable factors such as mortality, and indexing projections	19.6	84.6
		$5.8

- The unfunded liability of $246.4 million at March 31, 1990 was 19% of the present value of pension liabilities. This was a significant improvement over 1987 when the unfunded liability represented 24% of pension liabilities.

- Current contributions to the Fund at April 1, 1990 exceed the costs of benefits being earned by 1.08% of covered pay, a decrease from 1.33% at March 31, 1987. This current service surplus has been reduced due to costs of improvements in plan benefits. The excess is available to reduce the unfunded liability.

In their actuarial report, dated October 1, 1990, the actuaries state that, *"In our considered opinion, there is likely to be a small margin of conservatism in the actuarial assumptions adopted for this valuation, and there is a reasonable probability that the present level of contributions will be sufficient over the long term to provide for the present level of benefits."*

Teachers' Pension Fund

There was no actuarial review of this Fund during the past year, the next one is scheduled for 1991. However, because of the seriousness of the financial condition of this Fund, the following highlights from the 1988 actuarial review, as reported in my 1989 Annual Report are repeated below.

- The unfunded liability at July 31, 1988 was $845.4 million, an increase of $174.9 million over the $670.5 million at June 30, 1984.

- Contributions by members and the matching contribution by the Province are slightly less than required to fund benefits currently being earned.

- The assets of the fund are just over $768 million. The liabilities for those presently retired, which does not involve projections of future salary increases but does involve indexing, is almost $647 million. Thus there is only $121 million available to look after the liabilities for those not yet retired. The accumulated contributions for all non-retired teachers, not including the Province's matching contributions, are over $309 million. Obviously, the benefits for the non-retired must come largely from contributions yet to be made. In 1984 the value of the fund exceeded the value of benefits to those retired by $137 million, thus the position has deteriorated.

- On the basis of a cash flow study reported upon in April, 1989, the actuary concluded that there seems to be no reason to expect any cash flow problems in the next 15 years, but such problems are likely to arise shortly thereafter. The actuary stated that there will continue to be an excess of contribution receipts, plus investment income over pension benefits until at least the year 2006. This means that income will be sufficient to pay benefits. However, securities may have to be sold to pay benefits commencing in 2007.

- In my concluding rem s, I stated that the level of the unfunded liability in the Teachers' Pension Fund had risen substantially, and had to be a matter of some concern. Moreover, current contributions did not cover the costs of benefits being earned.

It is our understanding that negotiations have been taking place for the better part of a year between the government and the Nova Scotia Teachers' Union, with a view to effecting improvements in the financial position of the Fund. To date little if any progress can be reported.

Concluding Remarks

The unfunded liability of the Public Service Superannuation Fund is approximately the same as it was at the date of the previous actuarial review in 1987. Also, contributions to the Fund continue to exceed the current service costs of benefits being earned. Although the balance of this liability is a significant one, it would seem as the actuary has stated, *"that the present level of contributions will be sufficient over the long-term to provide for the present level of benefits."* However, it must be pointed out that this situation will prevail only if projected investment returns can be sustained, and if there are no significant improvements to the plan benefits without associated premium recoveries.

The situation with respect to the Teachers' Pension Fund continues to be a matter of grave concern. It is now two and one-half years since the last actuarial valuation. Since there have been no revisions to the financial conditions surrounding the plan, the unfunded liability has likely continued to rise and can be estimated to be in the vicinity of one billion dollars. In addition, the date of the serious cash flow problem is now one year closer.

Accordingly, it would seem incumbent upon those parties associated with the Teachers' Pension Fund to seek methods to counter the ever increasing burden being accumulated for future years. There is no easy solution to years of disregard for a more prudent pay-as-you-go policy. Drastic action is required and further delays will only compound the difficulty in resolving the problem.

Reservations of Opinion

Introduction

The provisions of Section 8 (b) and (d) of the Auditor General Act assign to me the responsibility for ascertaining whether in my opinion:

- all revenues to which the Province is entitled have been received, and that there are adequate systems and procedures to administer the revenue collecting function; and
- essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

To fulfill this responsibility it is necessary to review and evaluate the financial and accounting controls in the departments and agencies of government. The audits performed this year are tabulated in Appendix II. If certain essential controls are found to be inadequate, these deficiencies must be considered in rendering an opinion.

In addition, I have an audit responsibility for the annual financial statements of various crown corporations, boards, commissions and funds. These total 30 audits and are listed in Appendix III.

Financial Statement Audits

In my Annual Report, the details of any audit qualifications concerning financial statement audits, or situations in which it was not possible to render an audit opinion, referred to as a denial of opinion, must be described in full.

This year, in the performance of our financial statement audits, we did not encounter any situations which required the expression of a qualified audit opinion or the denial of an opinion.

Compliance Audits

In the performance of our audits of departments and crown agencies, we found several situations where the systems and procedures were deficient to the extent that reporting is required under Section 8 (b) and (d). These are described in the following paragraphs.

Camp Hill Medical Centre – In the conduct of our audit to express an opinion on the 1990 financial statements of the Centre, we noted two areas of weakness. These were in the systems for payroll administration at the Halifax Infirmary Hospital, and in the management of accounts receivable at Camp Hill Hospital. Although not of a magnitude to require a reservation to our audit opinion on the financial statements, they are reportable under the requirements of Section 8 (d) of the Auditor General Act.

The payroll administration weaknesses concerned two areas, salary payments in five departments and preparation of time sheets. In both areas the weaknesses involved inadequacies in the authorization and approval processes, and deficiencies in the detail supporting certain payments.

The deficiencies regarding management of accounts receivable involved inadequate reconciliation procedures of detail account listings to control amounts, billings not prepared on a timely basis, and unsatisfactory collection practices for overdue accounts.

Management is taking steps to correct these problems, and is implementing a computerized accounts receivable system.

Lands and Forests – As a follow up of prior years' audit findings, we examined the internal controls in a number of areas in this Department and found them to be adequate.

However, in a separate audit this year, weaknesses were noted in the system of controls over game and fishing licenses. In our opinion, the system was inadequate to ensure that license revenues are accurate, complete, and accounted for in accordance with relevant legislation and policies.

The Licenses Section of the Financial Management Division is responsible for issuing game and fishing licenses to vendor companies, and the subsequent collection of unsold licenses. Over 340,000 licenses were printed in the 1989 calendar year.

The specific weaknesses noted in our audit include:

- a number of Department employees have access to licenses;
- no person independent of the Section verifies the continuity of unissued licenses;
- it is possible for batches of licenses to be removed without detection;
- credit notes issued to vendor companies for the return of unsold licenses are not approved by any person outside of the Section, because the volume of credit notes prohibits such a check; and
- staff responsible for issuing credit notes also have access to licenses.

As a result of our audit observations, procedures have been introduced regarding preparation of control listings for licenses printed and disposed of; and the checking of these listings by staff, independent from those handling licenses.

Nova Scotia Hospital – In the conduct of our audit to express an opinion on the 1990 financial statements of the Hospital, we noted weaknesses in accounting

for payroll, and management of trust funds. Although neither was of a magnitude to require a reservation to our audit opinion on the financial statements, they are reportable under the requirements of Section 8 (d) of the Auditor General Act.

In 1989 the Province converted to the Human Resource Management System (HRMS) for processing payroll. Hospital staff enter information to HRMS, and the Department of Finance prepares payroll cheques and a payroll register, and posts payroll amounts to the Hospital's general ledger accounts. Numerous payroll posting and classification errors had occurred.

The Hospital has not reconciled the payroll register distribution or totals to the salary expenses entered in the general ledger accounts, and differences existed between the two records. The two records must be reconciled on a timely basis to ensure the salary expenses charged to the Hospital are complete and accurate. Bi-weekly reconciliations are being performed in the 1990-91 fiscal year.

Patient trust funds, in the form of cash, cheques or money orders, are received at the Hospital over the counter or through the mail. We found serious weaknesses in the controls over these funds which included:

- an inadequate segregation of duties between those who handle the cash and those who maintain the accounting records;
- no independent verification that all cash receipts have been deposited, or that all internal cheques have been recorded in the accounts of the Hospital; and
- no independent verification of the continuity of used cash receipt forms.

Small Business Development – Our review of three programs in the course of our 1990 Government-Wide Departmental Audit provided the basis for our opinion that, except for the Mainstreet Program, there was compliance with both legislation and department policies and guidelines, and that expenditures were made for the purposes appropriated.

The objective of the Mainstreet Program is to provide assistance to municipalities and downtown merchants to refurbish, revitalize and redevelop commercial areas. Under the Program, eligible organizations submit claims to the Department for review, approval and payment.

We examined 40 claims and found there was no supporting documentation on file, as it had been destroyed after review for eligibility and clerical accuracy. Efforts to reconstruct the documentation by requesting duplicate information did provide substantiation for most of the payments. We reported 14 instances of clerical error and unsupported amounts.

Solicitor General – It is our responsibility to perform an audit of the recovery cost claim pursuant to the Memorandum of Agreement Respecting Federal Contributions to Juvenile Justice Services under the Young Offenders Act. In the performance of this audit for the March 31, 1989 claim we found instances of inadequate systems and we encountered a high frequency of accounting and clerical errors. We were able to issue an unqualified opinion on the recovery cost claim, but only because we undertook an unwarranted extension of our audit testing and associated audit work.

The system inadequacies and accounting shortcomings are reportable under Section 8(d) of the Auditor General Act and may be summarized as follows:

- system deficiencies in control over bed/day statistics, which is critical data in determination of the cost sharing percentage;
- fixed asset control system deficiencies which made it impossible to verify the existence of certain fixed assets; and
- inadequate filing systems at head office regarding eligibility of Young Offenders.

Victoria General Hospital – Accounts receivable at the Hospital totalled $8.0 million at March 31, 1990. In my 1989 Annual Report under Reservations of Opinion (page 168) our overall conclusion was that the Hospital had an inadequate system for the monitoring and collection of accounts receivable. Details of the unsatisfactory conditions at the time of our 1989 audit were provided.

Although the Hospital has made some improvements in the management of this function there still remains:

- tardiness in billing for hospital services rendered;
- inadequacies in analysis of and follow-up of overdue accounts; and
- the need for revised policies and procedures in certain areas.

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STATUS PRIOR YEARS' OBSERVATIONS AND RECOMMENDATIONS

Introduction

This Annual Report continues the practice commenced in 1986 of tabulating the status of all previously reported significant recommendations and observations. Last year this list included items from eight previous Reports, 1981 to 1988 inclusive.

Added to the tabulation this year are matters arising from articles included in our 1989 Annual Report, where the comment still applies, the recommendation has not been implemented, or the status is to be determined at the time of a future audit. Also included are items mentioned in last year's status article which were resolved during the current year. Where pertinent, reference is made to articles in this year's Report.

There are 51 topics noted and the following summarizes their current status.

Comment still applies, or recommendation not implemented	19
Recommendation partly or substantially implemented	5
Status to be ascertained at a subsequent audit	27
	51

Summary of Previously Reported Recommendations and Observations	Status – at Preparation of 1990 Annual Report	Reference Year	Page
Estimates			
• Need to realistically anticipate all major expenditure requirements.	Comment still applies in certain cases.	1989 1988 1987 1986	49 73 59 50-51
• Use of Result Indicators encouraged, but development and use inconsistently applied in departments.	Comment still applies in certain cases.	1988 1987	162-168 111-113
Public Accounts			
• Use of "Forecast" data in the Statement of Current Revenue and Expenditure, considered irrelevant and unnecessary.	Comment still applies.	1986 1985 1984	28 28 32
• Certain advances under the Universities Assistance Act, which do not represent realizable recoveries from outside parties, are included on the Statement of Financial Position, contrary to prudent accounting practice.	Comment still applies.	1988 1987 1986 1985	48 40 28 29

Summary of Previously Reported Recommendations and Observations	Status – at Preparation of 1990 Annual Report	Reference Year	Reference Page
Auditor General Act			
• Recommended amendments to the Act to provide an appropriate degree of independence, particularly regarding appointment of the Auditor General and administration of the Office.	Not yet implemented.	1989 1988 1987 1986	34 37 30 29
Public Accounts Committee			
• Recommendation for various improvements in operation and structure of the Committee, relating principally to: – formal enunciation of Committee's role and responsibilities; – use of agendas and background material; and – provision for follow-up to Committee recommendations.	A Steering Committee of the PAC is currently studying methods for improving effectiveness of the Committee.	(1989 (1988 (1987 (1986	33-34 52-53 42 30
Financial Topics			
• Additional appropriations are too frequently requested by departments, and approved by Executive Council after the end of the fiscal year, often six months later.	Comment still applies.	1990 1989 1988 1987 1986	55 49 75 59-60 53

Crown Agencies and Corporations			
• Recommendation that legislation is required for crown agencies and corporations to enhance their accountability by providing for consistent reporting and disclosure requirements, a definition of status, and related matters.	Not yet implemented	1989 1988 1987 1986	58 83 67 56-57
Halifax-Dartmouth Bridge Commission			
• Policy required for ongoing monitoring and consultation regarding long-term debt, including more complete analysis of refinancing options.	To be evaluated at a future audit.	1989	61-68
• Introduction of a debt retirement program as part of a Commission Strategic plan.	To be evaluated at a future audit.		
Nova Scotia Business Capital Corporation			
• Serious inadequacies in the administrative and control structure for the loan function, for loans of the Industrial Expansion Fund, Industrial Loan Fund, and the Corporation.	Condition still prevails, see article, page 123.	1989	157-162

Summary of Previously Reported Recommendations and Observations	Status – at Preparation of 1990 Annual Report	Reference Year	Reference Page
Nova Scotia Power Corporation			
• Increase work order amount above $5,000 which must go to PUB for approval.	To be evaluated at a future audit.	1988	91-99
• Avoid expensive consulting and in-house costs regarding preparation for rates applications not filed.	To be evaluated at a future audit.		
• Need for significant improvements in the effectiveness, organization and scope of the internal audit activity.	New Manager of Internal Audit appointed in 1990.		
Departmental and Other Audit Observations			
Accounting Function Performance			
• Extensive delays encountered in finalization of three audits.	Situation still unsatisfactory, refer to article, page 194.	1989 1988	154-156 172-173
Annual Reports of Departments			
• Deficiencies in sufficiency of information provided, and timeliness of presentation by several departments.	To be evaluated at a future audit.	1988	126-131

Boards and Commissions			
• On the basis of a review of 12 Boards, recommended:		1988	83-90
– mandate and accountability clarifications in legislation; and	Not yet implemented.		
– preparation of guidelines for accountabilities and responsibilities.	Not yet implemented.		
Department of Attorney General			
• Sheriffs' offices – deficiencies in cash receipt and disbursement practices, relating to cheque signing and cash deposits.	To be evaluated at a future audit.	1986	71-73
• Provincial Judges and Prothonotaries – improvements planned for:	To be evaluated at a future audit.	1988	115-120
– internal controls for Provincial Judges Administration Units;			
– the Provincial Court information system; and			
– procedures for collection of fines.			

Summary of Previously Reported Recommendations and Observations	Status – at Preparation of 1990 Annual Report	Reference Year	Reference Page
Department of Community Services			
• Recommendations were made regarding the need to: – develop a long-range plan for orderly development of Homes for Special Care; – develop formal criteria for prioritization of projects; and – remedy deficiencies in the rate setting process and administration of it.	To be evaluated at a future audit.	1988	120-125
Computer Related Audits			
• The article on "Status of Previously Reported Recommendations and Observations", has included a similar commentary for several years, that there is "Insufficient attention to security and control matters at many installations throughout government."	There has been a marked improvement in awareness of security and control matters, and the initiation of requirements by the EDP Advisory Committee of Management Board for departments to address these matters more thoroughly. Accordingly, we shall not repeat this general government-wide comment after this year. Rather specific instances of significant security and control weaknesses will be reported in the Annual Report, which will identify the agency or department concerned.	1988 1987 1986	181-186 131-139 114-118

Department of Consumer Affairs			
• Inadequate follow-up procedures for Orderly Payment of Debts accounts in arrears.	To be evaluated at a future audit.	1989	109
Department of Government Services			
• Implementation of a long-range facilities plan on a government-wide basis.	Not yet implemented.	1988	135-146
• Charging of space to Departments and agencies.	Not yet implemented.		
• Delays in the timeliness of the billing recovery process.	To be evaluated at a future audit.	1989	118-119
Grants and Assistance			
• Need for policy statement instituting government-wide criteria for review, approval and control for grants and assistance.	To be evaluated at a future audit.	1989	120-124
• Need for specific criteria for various grant programs at the department level.	To be evaluated at a future audit.		
• Need for policies and guidelines to ensure criteria are adhered to.	To be evaluated at a future audit.		

Summary of Previously Reported Recommendations and Observations	Status – at Preparation of 1990 Annual Report	Reference Year	Reference Page
Department of Health and Fitness			
• Nova Scotia Commission on Drug Dependency: Need for improved procedures to evaluate the efficiency and effectiveness of certain programs.	To be evaluated at a future audit.	1989	124-128
• Community Health Services: Need for measurable objectives for many of the programs in Community Health Nursing; and to increase frequency of public health inspections.	To be evaluated at a future audit.	1989	128-131
Internal Audit			
• Outstanding recommendations arising from a government-wide study including:		1987 1986	99-101 94-96
– need for expanded audit scope into economy and efficiency areas;	In most internal audit mandates, but not widely carried out.		
– need for planning and risk analysis;	To be evaluated at a future audit.		
– need for central internal audit resource for smaller departments; and	To be evaluated at a future audit.		

– need for staffing, training and performance enhancements.	Some progress in these areas, including expanded internal audit staffing in Departments of Education, Government Services, Health and Fitness, Transportation and Communication, and Victoria General Hospital.		
Department of Finance			
• Statement of Travelling Expenses Form needs revision to provide more detail and facilitate approval and audit.	New form drafted, not yet introduced.	1986	101-102
Provincial Retirement Plans			
• Teachers' Pension Fund	See article, page 201	(1969	163-154
– large and growing unfunded liability.	Comment still applies.	(1987 (1986	141-142 120-121
Result Indicators			
• Recommendations were made regarding the need for: – a higher priority being placed on the use of result indicators; – additional policy direction in this area; – correlation in timing and content, and in the requirements of the result indicator process; and – a greater degree of analysis of performance, using result indicators.	To be evaluated at a future audit.	1988 1987	162-168 108-113

Summary of Previously Reported Recommendations and Observations	Status – at Preparation of 1990 Annual Report	Reference Year	Reference Page
Department of Transportation and Communications			
• Serious weaknesses in the internal controls in the non-Civil Service payroll system, for non-certified employees, due to incompatible duties performed by area foreman.	Comment still applies	1989 1988	167 198
Vehicle Utilization			
• Need for centralized responsibility to monitor compliance with prescribed policies and guidelines.	To be evaluated at a future audit.	1989	145-152
• Improved data required in certain departments on vehicle costs, and greater compliance with management manual reporting requirements.	To be evaluated at a future audit.		
Venture Corporations Board			
• Shortcomings regarding information requirements and accounting for investments under the Venture Corporations Act.	Comment still applies	1989 1987 1986	160 155-156 126-129
• Lack of compliance by venture corporations with information filing requirements of the Act.	Responsibility for monitoring and follow-up procedures unassigned in 1990.	1989 1987 1986	160 155 128

Victoria General Hospital

• Serious inadequacies in the systems for monitoring and collection of accounts receivable: – assignment of responsibility for follow-up of overdue accounts; – lack of appropriate reporting to senior management of age of accounts receivable and collection trends; – instances where policies and procedures did not exist, or require revision; – numerous examples of late, incomplete, or inaccurate information; and – bills or statements not prepared for prior month's charge.	Some improvements made, but overall system still deficient. Assigned to two senior clerks. Reports now prepared and regularly submitted. Not yet implemented but there are plans to do so. Steps being taken to improve this condition. No changes in the system yet to do this.	1989	168

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OFFICE OF THE AUDITOR GENERAL

Office of the Auditor General

Introductory Comments

In each of my last two Annual Reports, there has been a discussion of major revisions in both the audit approach and coverage of the Office. In approach, the principal area relates to the performance of audits in government departments, described in the article on page 153. In coverage, the reviews of transfer payment recipients, namely hospitals, school boards and universities, formed a substantial segment of our audit activity during the current audit year. A separate section of this Report deals with transfer payment reviews, page 88.

Over the past several years, there has been a marked shift in emphasis in the type of audit work performed, not only by this Office, but by most other provincial legislative audit offices. A summary of the relative time devoted by our office to the principal areas of audit activity during the past year is as follows.

- Annual financial statement audits of various agencies, crown corporations, and funds – 34%.

- Review of transactions for compliance, controls and systems in government departments, including computer related systems controls and audit of cost sharing claims – 31%.

- Review of management practices in those entities receiving grants and assistance from government, namely transfer payment reviews – 18%.

- Special audit assignments, in departments and on a government-wide basis, again including computer related reviews and special reviews in crown corporations where the Auditor General is not the appointed auditor –17%.

Unfortunately, again this year there were several instances of a lack of priority and preparation by entities for whom we conduct financial statement opinion audits. The result was that we experienced considerable delays and were required to spend excessive time on certain audits. Our office and the Department of Finance are currently engaged in a concerted effort to remedy this prevailing situation, which has also had an impact on the finalization of the Public Accounts of the Province. This topic is described in a separate article on page 194.

As mentioned in the introduction to this Annual Report, I shall be retiring as Auditor General in a few months. It is conceivable that my successor will choose to function with an organizational structure somewhat different than that currently in place. This eventuality should not be unexpected, as it is the norm rather than the exception that each Legislative Auditor will modify the organization of the Office to best reflect the capabilities of the staff.

Staff Complement

During 1990 the Office reduced its complement from 35 to 34 to reflect recent initiatives by Management Board to effect decreases in staffing where possible. This was accomplished by not filling a vacancy which occurred during the year.

With the current level of staff qualifications and performance, we should be able to perform the audit mandate which is our responsibility. However, this can only be accomplished if an appropriate degree of readiness is exhibited by our financial statement auditees, as referred to in a preceding paragraph.

The staff complement at December 31, 1990 was 34 and comprised:

Senior Staff		6
Auditor General, Deputy and Assistant Auditor General, and three Directors		
Audit Teams and Support Staff		24
Audit Managers and Supervisors	10	
Senior Audit Officers with Professional Qualifications	6	
Audit Officers – includes Students and Technicians	8	
Administrative Support Staff		4
		34

Financial

The Auditor General Act provides for the payment of operating expenses incurred by the Office, along with the recovery of costs and fees charged for specific examinations and audits. The approved Estimate and the actual expenditures and recoveries for the year ended March 31, 1990 are shown below, as well as the 1988-89 actuals.

The net expenditures for the current year are approximately $140,000 greater than for 1988-89. This was due primarily to two factors: an average staff complement of one person greater than the previous year; and higher salary costs as a result of cost of living increases and reclassifications. The Office operated within its approved budget for 1989-90, and the actual net expenditures for the year were $17,000 less than the Estimate.

	1989-90		1988-89
	Estimate	**Actual**	**Actual**
Expenditures			
Salaries and benefits	$1,576,700	$1,566,665	$1,432,161
Other	196,000	197,191	164,505
	1,772,700	1,763,856	1,596,666
Recoveries	152,700	160,950	137,500
Net Expenditures	$1,620,000	$1,602,906	$1,459,166

Professional Development and Affiliations

There is a continuing need to maintain a high degree of competence directly related to the performance of our legislated and other audit responsibilties. These include developments in auditing and accounting standards and techniques, contemporary computer literacy demands (which have both audit and administrative ramifications), and an ability to perform assignments which go beyond the more traditional financial statement opinion and compliance audits. There is also the increasing expectation of legislative auditors for greater breadth and depth of audit coverage, such as the transfer payment audit reviews, and the special assignments conducted in crown corporations.

We pursue various initiatives to meet these demands and to provide better and more efficient audit performance and service. These include membership in professional and other appropriate associations and organizations, active participation in the exchange of information with other legislative auditors, the conduct of our own technical seminars, and attendance at ones presented by others.

During 1990, staff attended a variety of courses and seminars in audit techniques, both for traditional financial statement and compliance audits, and also broader scope management related audits; computer audit and related matters; and management courses directed towards the professional development of individual staff members. These courses were presented by professional associations and other educational bodies, such as the Civil Service Commission of the Province, and the Canadian Comprehensive Auditing Foundation, as well as by members of our professional staff.

There are three annual conferences we attend, all of which contribute in an extremely positive manner to the needs of the Office. These provide an excellent exposure to the audit experiences and research initiatives of others. They also afford the opportunity to share in government audit related developments elsewhere in the country by exchange of information and material, attendance at course offerings, and most importantly the development of a support network essential to a small office, such as we have in Nova Scotia. The three conferences referred to are:

- The annual meeting of the Canadian Conference of Legislative Auditors, which was held in St. John's, Newfoundland in July. This conference was held in conjunction with a meeting of the Canadian Council of Public Accounts Committees.

- The Atlantic Provinces Legislative Auditors' Annual Meeting, held in Fredericton in October.

- The Annual Conference of the Canadian Comprehensive Auditing Foundation, held in Ottawa in November.

Two of our staff were successful in obtaining their Certified Management Accounting designation, and one staff member in attaining her Certified General Accounting designation, all upon completion of the programs and passing the national qualification examinations. We congratulate these three staff members for attaining their professional accounting designations, a significant achievement on the part of each.

We currently have four students enrolled in the professional accounting programs of the Society of Management Accountants and the Certified General Accountants Association. These students take evening courses at university, and/or correspondence courses from their respective accounting associations, supplemented by tutorial assistance for certain courses. In addition, members of our staff provide a degree of assistance to the students in preparing them for their examinations.

One of our staff, on the basis of an outstanding contribution to the activities of the Certified General Accountants Association of Canada, was awarded a Fellowship by the Association during the past year.

In addition, we have provided a supportive role to the Canadian Institute of Chartered Accountants Public Sector Auditing and Accounting Committee since its inception in 1981. This has been done in the role of an Associate to the Committee, by reviewing and commenting on various drafts of the Committee on standards and guidelines as they are developed.

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APPENDICES

APPENDIX I

Auditor General Act

Section 8

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Section 9

(1) The Auditor General shall report annually to the House of Assembly the results of his examination and call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money; or

(g) money which is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency,

and to any other case that the Auditor General considers should be brought to the notice of the House of Assembly.

(2) The report of the Auditor General shall be laid before the House of Assembly on a day following the day upon which the Public Accounts have been laid before the House of Assembly.

(3) Whenever a case of the type described in clause (a),(b) or (e) of subsection (1) comes to the attention of the Auditor General, he shall forthwith report the circumstances of the case to the Minister.

(4) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of government of any significant matter discovered in an audit.

(5) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

Section 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

Section 17

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

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APPENDIX II

Audits Performed by Auditor General
In Government Departments

Advanced Education and Job Training
- Department survey
- National Training Claim
- Student Assistance – compliance
- University Assistance – compliance

Agriculture and Marketing
- Agricultural Services – compliance
- Agricultural Production – compliance
- Department survey

Attorney General
- Department survey
- Law Administration – compliance
- Legal Aid Federal Claim
- Legal Aid Trust Fund
- Public Offices – compliance
- Review of internal controls

Community Services
- Canada Assistance Plan
- Department survey
- Family benefits
- Other Services – compliance
- Young Offenders Act

Consumer Affairs
- Department survey
- Review of internal controls

Education
- Department survey
- Education grants – compliance
- Museum claims

Environment
- Department survey
- Review of internal controls

Finance
- Additional appropriations
- Debt charges – compliance
- Department survey
- Disbursements
- Federal Transfer Payments
- Payroll
- Pension fund investments
- Provincial Tax Commission
- Review of internal controls

Fisheries
- Department survey
- Review of internal controls

Government Services
- Department survey

Health and Fitness
- Department survey
- General Hospital Services – compliance
- Medical Services Insurance
- Out-of-Province recoveries

Housing
- Department Survey

Industry, Trade and Technology
- Department survey
- Loan status

Lands and Forests
- Department survey
- Game and Fishing Licenses
- Land Acquisitions

Mines and Energy
- Department survey

Municipal Affairs
- Department survey
- Property Assessment Division

Public Service
- Expenditures Under the Elections Act
- Review of Travel Expenses
- Royal Commission on Health Care
- Royal Commission of the Donald Marshall Jr. Prosecution

Small Business Development
- Department survey
- Small Business Programs – compliance

Solicitor General
- Department survey
- Recoveries
- Review of operations
- Young Offenders Act

Tourism and Culture
- Department survey
- Review of internal controls

Transportation and Communications
- Department survey
- Equipment parts inventory
- Land acquisitions
- Review of internal controls

Note – The above tabulation includes the Special Departmental Reviews described in the section of this Report beginning on page 120.

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APPENDIX III

Audits Performed by Auditor General

Crown Corporations, Boards, Commissions, and Funds

Agricultural Organizations

Nova Scotia Crop and Livestock Insurance Commission
Provincial Community Pasture Board
Provincial Grain Commission

Education Institution

Atlantic Provinces Special Education Authority

Hospitals

Camp Hill Medical Centre
Cancer Treatment and Research Foundation of Nova Scotia
Halifax Infirmary Foundation
Nova Scotia Hospital
Victoria General Hospital

Lending Organizations and Funds

Housing Development Fund
Industrial Estates Limited
Industrial Expansion Fund
Industrial Loan Fund
Nova Scotia Business Capital Corporation
Nova Scotia Farm Loan Board
Nova Scotia Fisheries Development Fund
Nova Scotia Housing Development Corporation
Small Business Development Corporation

Pensions

Members' Retiring Allowance Account
Nova Scotia Teachers' Pension Fund
Public Service Superannuation Fund

Regulatory Bodies

Board of Commissioners of Public Utilities
Nova Scotia Lottery Commission
Public Accountants Board of the Province of Nova Scotia

Other

Novaco Limited
Nova Scotia Legal Aid Commission
Nova Scotia Primary Forest Products Marketing Board
Nova Scotia Research Foundation Corporation
Nova Scotia Talent Trust
Public Trustee

Note – The above tabulation does not include the two audits described in the section of this Report beginning on page 62.

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APPENDIX IV

Audits Performed by Private Sector Auditors

Crown Corporations, Boards, Commissions and Agencies

Art Gallery of Nova Scotia
Check Inns Limited
Council of Maritime Premiers
Halifax-Dartmouth Bridge Commission
Halifax Harbour Cleanup Incorporated
Nova Scotia Liquor Commission
Nova Scotia Liquor License Board
Nova Scotia Municipal Finance Corporation
Nova Scotia Power Corporation
Nova Scotia Rehabilitation Centre Corporation
Nova Scotia Resources Limited
Schooner Bluenose Foundation
Sherbrooke Restoration Commission
Sydney Steel Corporation
Tidal Power Corporation
Trade Centre Limited
Upper Clements Family Theme Park Limited
Waterfront Development Corporation Limited
Workers' Compensation Board of Nova Scotia

Hospitals
(Agencies as defined in Auditor General Act)

Eastern Memorial Hospital
Eastern Shore Memorial Hospital
Glace Bay Community Hospital
Inverness Consolidated Memorial Hospital
Northside Harbor View Hospital
Strait - Richmond Hospital
Sydney City Hospital
Twin Oaks Memorial Hospital

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